



# BUSINESS ORGANIZATION

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TO  
PRINCIPAL PERCY ANSTEY,  
B. Sc. (Econ.) LONDON.

A SINCERE FRIEND, A LIBERAL MINDED ENGLISH GENTLEMAN  
AND AN ARDENT WORKER IN THE CAUSE OF ECONOMIC  
STUDIES IN INDIA, THIS WORK IS

**Dedicated**

AS AN INSIGNIFICANT TOKEN OF THE AUTHOR'S ADMIRATION AND RESPECT.





## PREFACE.



This book is particularly meant to be a student's book, though incidentally it is hoped that an intelligent businessman anxious to learn all he can about the complicated machinery of the commercial world during his leisure hours, may also find pleasing recreation within its pages. It has been written with the main object of furnishing a useful guide to the student of Commerce reading for the University as well as other Examinations in Commerce.

Though the scope and size of the work make anything but a brief review of the various branches dealt with possible, all care is taken to embrace the main features which an anxious student ought to master with a view to acquire a tolerable grasp of the principles involved. For a detailed specialization of any of these branches, special works written on each branch must, of course, be referred to, but it is hoped that a preliminary study of these chapters will furnish a groundwork on which the specialist may proceed to build his structure. An attempt has been made all throughout to make the text as practical and useful as possible, at the same time to present the ideas in a style both simple and easy, with a view to supply the student not only with predigested ideas ready for assimilation, but also to kindle within him a love for a critical survey of the problems dealt with.

The ground attempted to be covered is wide, embracing as it does, chapters on Partnership, Joint Stock Company Combination, Office Organisation of Wholesale and Retail

Businesses the Indent Business and its complications, the Secretarial Work and Management in connection with large Companies, Procedure at Public Meetings, the business problems connected with Labour Efficiency and Industrial Organization, the secrets of Scientific Advertising from all standpoints, the Stock Exchanges of the world, their practice, organization, etc., and as far as possible, the requirements of the syllabuses of first class examination boards, both English and Indian, are kept in view taking as a special guide that for "Business Organization" of the B. Com. Examination of the University of Bombay.

The author acknowledges with gratitude the encouragement and kindly interest displayed by Principal Anstey of the Sydenham College of Commerce, Bombay, at whose invitation a course of lectures on the subject embracing Indian conditions was specially prepared and delivered by the author in the said College, and but for whom these pages would never have been written.

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DAVAR'S COLLEGE OF COMMERCE,

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*Bombay, 15th March 1919.*

} SOHRAB R. DAVAR.

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# DAVAR

## ON

### BUSINESS ORGANIZATION.

#### CHAPTER I.

#### **The Essential Requisites for Business Success.**

In this chapter it is proposed to deal briefly with the most important requisites for business success. The various authoritative writers on this subject have no doubt expressed themselves differently, but all seem to be agreed in their conclusions. Prof. Dicksee in his work on "Business Organization" lays down three requisites *viz.*, (1) Skill and Energy, (2) The Necessary Capital, and (3) The Means of speedily acquiring connection or reputation. Writers of older school have held out the three virtues *viz.*, "Tact, Push and Principle" as the most essential. After having given this subject the most anxious consideration for over eighteen years and having read of and observed the various factors that have, or are said to have made or marred the careers of eminent businessmen, the writer hesitates to dogmatise. In the modern business world there are so many positions a businessman may be called upon to fill, and that too under circumstances so varied, each requiring its own chain of equipments, that nothing more than a general discussion on broad lines is possible. It is said quite correctly that "the modern businessman



is a compound of temperament and training." All men are not born alike. Some are born as the gifted children of nature to rule and direct a business. Such men take to business like "ducks to water" and a good training coupled with a little experience enables them to successfully organize and direct large enterprises. Others less fortunate, lack this ability in spite of training and experience and though they fail when placed in positions where initiative and correct judgment are necessary, they succeed in positions where directions are to be carried out and initiative, or independent action, or original thought, are not called for.

To sum up, the most essential requisites to business-success appear to be (1) Sound Common Sense, (2) Business Morality, (3) Business Ability and Business Training and (4) Capital.

### **Sound Common Sense.**

We are all said to be born with a quality of what is known as 'Common Sense.' How many of us can claim that this 'Common Sense' which we are all possessed of, is sound and consistently unerring. Of course education and experience tend to improve us in that direction. We no doubt come across instances where men holding the highest academic distinctions lack what a businessman may call 'common sense'. Fortunately these are rare exceptions. Mankind generally benefits by experience and training. Tact, caution with self confidence, ability to judge between men, a cool head, resourceful readiness to meet situations, courage to give up the most cherished opinions and schemes when found erroneous, patient and tolerant attitude towards criticism, and a generous nature

that is ready to forget and forgive, sum up the qualities that are to be found in all cases where common sense rules supreme. These qualities are the result of temperament, experience and training. There is no better school for the perfection of common sense than the school of experience and an educated young man who has specialized in practical commerce, stands the chance of being able to improve himself in this direction, by passing through this most efficient of schools.

### **Business Morality.**

This factor of business morality, or business honesty, plays no mean a part in contributing towards business success. Straightforward methods pay in the long run in every walk of life; so they do in business. If a manufacturer or merchant acquires a reputation for sharp practice, his business declines in proportion. Once a bad name is made—it is so easy to do so in these competitive days,—no effort at making amends, will avail. The modern merchant or manufacturer comes in touch with his compatriots of the most distant countries and his reputation for honesty, or otherwise, travels to these far off lands, and forms a serious factor which makes or mars the foreign trade of his country. The British business man has established a high reputation for clean methods all over the world, with the result that Great Britain commands to-day the largest foreign trade of any other civilised country. Every patriotic Indian should see that his country is second to none in this regard. India with its infant industries quickly growing into healthy manhood, naturally looks forward to the day when its manufactures, particularly those commanding special advantages, be in demand all over the civilised world. It should therefore see

that it firmly establishes a reputation for business morality which is second to none. One no doubt meets with cases where the richest and the most successful men in business are not exactly the models of virtue, still it cannot be denied that rewards of straight-forward methods are not only sweeter but more lasting. Apart from the purely money making standpoint the plea for this all important factor of business morality, may be maintained and practised by every businessman on much higher grounds.

### **Business Ability and Business Training.**

We have already noticed that business ability depends first on temperament and next on training. A most favourable combination of these two factors in a young aspirant to business-success is full of promise. The necessity for a specialized education in Law, Medicine, Engineering, etc., was recognised generations ago. Commerce in those days was not so full of technicalities and complications as we find it to-day, and naturally the need for a specialized training in commerce was not felt till a comparatively recent date. The modern business world wants an army of men trained and equipped in the secrets of commercial practice, some of whom by reason of natural aptitude are bound to rise to the highest rung of the ladder, whereas the majority are equally necessary to fill in positions perhaps more modest as far as emoluments go, but of no less importance, forming as they do so many links in the chain which makes up the industrial and commercial efficiency of the nation. In old days a few deals a year made up the business transactions of a merchant with what was considered a tolerably large foreign connection. The margin of profits was large beyond the

dreams of our modern merchants during normal times. No wonder our ancestors seem to have done admirably without worrying over the most scientific methods of keeping accounts and in blissful ignorance of the perplexing problems of business and industrial organization which are to-day taxing the energies of their successors. A few books of accounts on the primitive double entry system of book-keeping, handed down from generation to generation, in almost the same condition as Lucas-de-burgo found and left it in a treatise as early as 1495, answered their purpose. In these days however of gigantic company enterprises covering up hundreds of million in capital, not to speak of the equally important private firms and partnerships with world-wide commercial interests, accountancy and organization have expanded with a view to meet the demands made on them, with the result that only those who have studied these branches with that application and perseverance with which the study of the other professions are pursued, can expect to be of substantial assistance. What is more is, that the young man destined for a commercial career must not lose time or dissipate his efforts. He should concentrate his attention to the goal before him. This is very important because, according to the most authoritative writers and thinkers on practical commerce, the young business aspirant must enter into business at an early age, in order to be able to form those traits of character such as tact, faculty to distinguish between men and men, &c., which no amount of school or college education would help to build up. To Antwerp is due the credit of giving the world its first College of Commerce in 1854 and to Leipzig the world owes its first commercial University which was established in 1898. England was rather slow to

appreciate at first the importance of a specialized training in commerce, but it had to eventually fall in the line. The London Chamber of Commerce was perhaps the first to take up this question seriously. It introduced and encouraged the spread of commercial education throughout the British Empire, by means of its Junior and Senior Examinations covering up a large number of subjects embracing the various branches of study most essential to business success. To-day the value of commercial training is universally recognized, with the result that we have faculties of commerce in the various British as well as Indian Universities. Professions like that of Accountants, Auditors, Secretaries, Actuaries, and Bankers have sprung into prominence as a result of modern developments. These vocations are specialized by groups of experts who have associated themselves into societies, the diplomas of fellowship of which can only be acquired after answering the most stringent requirements as to examinations, apprenticeship and experience.

There are no doubt cases, where men through force of exceptional natural ability have risen to prominence in spite of their defective education or want of it. The student of commerce when confronted by that statement has to remember two undeniable facts viz., (1) all men destined for a commercial career, either by choice or force of circumstances, are not born with exceptional natural advantages, and (2) in these progressive days the circumstances under which these men worked and made a mark for themselves in years gone by, are not likely to recur to afford us similar facilities. With nations around us specially trained and equipped for the various branches of commerce on the principle of specialization, it is useless

for any race to expect to make an appreciable headway without being equally armed. Have we not heard it repeatedly lamented in India that the children of some successful merchants proved so incompetent, that all that they did after the death of their parents was to help to destroy within a few years the magnificent fabric their fathers had built up during the course of a strenuous life? That gift of nature which we have called business temperament, present in the parent, was found to be wanting in the children. Could not amends have been made to a certain extent, and continuity with more or less uniform efficiency and success in business secured, through the substitution of a sound business education plus the assistance of a specially trained and experienced staff?

### **Capital.**

The last requisite though not the least is Capital. The tendency of modern commerce is towards amalgamation and expansion of commercial enterprises into large business-houses. This makes it increasingly difficult for men less fortunate in this regard to start in business on their own account. There are no doubt various courses open to a man of ability and experience to make up for this lack of capital, with which we shall deal later in chapters on Partnership, Companies, Organization of credit &c, but it cannot be denied that many a man who would otherwise have blossomed into prominence, has been compelled to occupy a subordinate position for the greater part of his life, if not all throughout it, through want of sufficient capital. In order to work any enterprise with success in these days of small profits and quick returns on huge lines, the principals should provide themselves with ample capital to be able to cope with all possible requirements. In case of businesses

that have grown gradually into large dimensions from a small beginning, capital has also grown with it, but where one contemplates the starting of an entirely new enterprise, it is wise to sit down and make careful calculations in order to arrive at as accurate an estimate as possible, as to the necessary capital, with a view not only to be able to launch the concern with success, but also to provide for that period in the life of every new enterprise in the early stages of its career, when the profit and loss account usually exhibits a debit balance, which by the persevering efforts of a capable principal, is gradually brought round to the credit side. The ability to meet your engagements punctually, so essential to the establishment of business credit, can only be met with in enterprises which are properly financed. The points to be noted while estimating the approximate financial requirements are, (1) the amount actually required for permanent constructive work and loss of interest on same during this process, (2) the actual amount required for investment in stock in trade as working capital, (3) the actual extent of credit which has to be allowed to customers according to the practice in that branch of business, (4) the extent of credit likely to be allowed to the business by others, though of course where cash discounts on liberal scales are allowed for prompt payments, it is best to provide sufficient capital in order to be able to take advantage of the same.

## CHAPTER II

**Combination in Business.****Partnerships, where and why necessary ?**

In the last chapter we discussed in the form of a general survey, the various requisites for business success. It is rare to find a combination of all of them in one person. Besides, there are other practical difficulties which make difficult, if not actually impossible, the smooth running of a concern without the combination of a number of proprietors. We have noticed how a man who combines business temperament and training may be handicapped through the lack of capital. Here, a combination with a financing partner, places him on the right road to the benefit of both. Again, where the nature of the business demands special concentration in more than one direction, division of responsibility by a number of individuals for the common good of all, tends to efficiency of work. This combination is known as a "Partnership". Partnership is defined by Section 239 of our Indian Contract Act, 1872, as :—

"The relation which subsists between persons who have agreed to combine their property, labour or skill in some business, and to share the profits thereof between them."

This legal definition embraces in brief the object with which people in business enter into partnerships. The paramount object is to combine skill, labour or capital and the success of the firm thus constituted depends mostly on the nature of this combination and the care and judgment with which selection is made. A number of indivi-



duals possessed of the necessary skill and ready to devote their time and labour, may combine with others possessed of capital, who are prepared to invest in the proposed enterprise. It is no doubt true that these individuals, endowed with the necessary skill and experience, may be able to arrange for a loan, but a firm which deals entirely or largely on borrowed capital, is at so great a disadvantage in actual practice, that that course is seldom resorted to. It may be argued with equal force that a person who commands capital may avoid partnership by engaging the services of trusted employees possessed of the necessary skill and experience. This is no doubt frequently done but it is easy to understand that the incentive to work and labour to the best of one's abilities in a concern, in the profits and the future good will of which one has proprietary interests, is one which cannot be substituted by any other device known to mankind. In fact, this is a factor which is said to place partnerships in a more advantageous position compared to public companies, as we shall see in a later chapter. It would thus be seen that it is a great mistake for people to join as partners on the simple ground that they possess capital and would like to be doing something by way of business. Absence of combination with those with experience and training in some form, would here spell disaster. This seems so self-evident that it would hardly deserve mention in a work of this character, were it not true that this simple fact is frequently ignored.

### **The Essence of Partnership.**

The essence of partnership is mutual trust and mutual confidence. One has to display great caution and judgment in the selection of partners with regard to their inte-

grity and honesty of purpose. In law every partner is responsible to his last penny for the debts of a partnership incurred in the regular course of its business and hence the necessity for greater caution, lest the speculative tendency or dishonesty of a partner may involve the firm and the other partners in losses. However small the share of a partner in the business, his liability remains unlimited with regard to its debts to outside creditors. This factor should never be lost sight of or ignored by those who enter into a business partnership. The other factor to be settled is the amount of capital each is to provide and the share of profit each is entitled to draw. This share need not depend on the proportion of the capital contributed by each, for, a financing partner may bring in capital which is much larger in amount compared to that contributed by his experienced colleagues and may draw an equal or even a smaller share in the profits. This difference in contribution towards the capital of the firm is supposed to be made up by the experience and knowledge of those who bring in a smaller contribution. Frequently a partner who devotes more or most of his time to the partnership business compared to those of his colleagues, is allowed to draw a salary over and above his share of profits. This salary, which forms part of the establishment expenses of the firm, has to be written off to the debit of the profit and loss account before arriving at the figure of divisible profits. We thus arrive at the meaning of the expressions "active" or "working" partners and "sleeping" or "financing" partners. Those who take an active or working part in the business are known by the designations first named, whereas those who have invested their capital in the firm, but do not take any active part in the working of the concern, are known as sleeping dormant or financing partners.

### **The Partnership Agreement.**

Having selected the right men as partners in the business, the next step is to see that a working agreement is drawn out and signed by the partners. No well constituted partnership of modern times should be allowed to exist for a day without going through this legal formality. When people join hands as partners they are in the best of spirits and frequently forget that this happy mood unfortunately does not prevail for ever in all cases. Unexpected losses, or even unlooked for profits, are frequently the signals for some misunderstanding which in the absence of a written agreement may develop in an expensive law suit. The sudden death of one of the partners may also bring about an unpleasant situation which could have been avoided if a well thought out and properly drawn agreement had been in existence. Differences have also arisen when one or more of the partners get into the habit of drawing out large amounts for their personal expenses. The calculation of Good-will in case of death or retirement of partners, has also frequently resulted in heavy litigation. In order to provide for all these unpleasant contingencies, a Partnership Agreement is absolutely necessary. Of course in Law such an agreement in writing need not exist and in the absence of the same, the practice of the firm during its active years of work is taken as a data, but as we have seen, the expense, inconvenience and unnecessary unpleasantness may all be avoided by this simple document.

The most important points that a Partnership Agreement should provide for, may be summed up as follows:—

- (1) The term or duration of the Partnership.

- (2) The actual amount of capital each partner undertakes to bring in.
- (3) The total amount that each is to be allowed to draw out for personal use, monthly or quarterly.
- (4) The percentage of interest, if any, that has to be allowed on each partner's capital and charged to each partner against his withdrawals from the firm, before profits are ascertained.
- (5) The actual apportionment of work, for which each partner makes himself responsible to his co-partners.
- (6) The proportion in which the profits or losses are to be divided among partners at agreed intervals.
- (7) The steps to be taken on dissolution, by death, retirement or otherwise as to the calculation of Good-will and Capital and the method by which such a share has to be paid out.
- (8) The arbitration clause providing for certain disputes and differences between partners to be settled by a reference to arbitration.

In the absence of an express agreement to the contrary, the following rules laid down in sec. 253 of the Indian Contract Act 1872 would apply on the various points dealt with above.

Rules as to the duties and powers of partners that would apply in the absence of any contract to the contrary, as laid down in S. 253 of the Indian Contract Act;—

- (1) All partners are joint owners of all property originally brought into the partnership stock, or bought with money belonging to the partnership or acquired for purposes of the partnership business. All such property is called partnership property. The share of each partner in the partnership property is the value of his original contribution, increased or diminished by his share of profit or loss :
- (2) All partners are entitled to share equally in the profits of the partnership business, and must contribute equally towards the losses sustained by the partnership :
- (3) Each partner has a right to take part in the management of the partnership business :
- (4) Each partner is bound to attend diligently to the business of the partnership and is not entitled to any remuneration for acting in such business :
- (5) When differences arise as to ordinary matters connected with the partnership business, the decision shall be according to the opinion of the majority of the partners ; but no change in the nature of the business of the partnership can be made, except with the consent of all the partners :
- (6) No person can introduce a new partner into a firm without the consent of all the partners :
- (7) If from any cause whatsoever, any member of a partnership ceases to be so, the partnership is dissolved as between all the other members :

- (8) Unless the partnership has been entered into for a fixed term, any partner may retire from it at any time :
- (9) Where a partnership has been entered into for a fixed term, no partner can, during such term, retire, except with the consent of all the partners, nor can he be expelled by his partners for any cause whatever, except by order of the Court :
- (10) Partnerships, whether entered into for a fixed term or not, are dissolved by the death of any partner.

**Good-will :—**

It will not be out of place to devote some space to the treatment of this most important item which frequently forms one of the most valuable assests of a business concern. Good-will is the value attached to the established reputation and connection of a firm. "The possibility that the old customers will resort to the old place." ( Lord Eldon in *Cruttwell v. Lye* 17 Ves. 335 ) In the words of Warrington J., "The Good-will of a business is the advantage, whatever it may be, which a person gets by continuing to carry on, and by being entitled to represent to the outside world, that he is carrying on a business which has been carried on for some time previously."

Thus Good-will is an asset which owes its very existence to the efforts of the proprietors or managers of the concern to which it is attached, and thus it is but fair that in case where the concern is run through the co-operation of partners, it should be, as it is, considered as a common asset

of partnership, which must be taken into account when computing the share of the Capital of an outgoing partner. The difficulty however arises in the computation of the actual value of this most fickle of assets. I call it fickle in the sense that it constantly fluctuates with the increased prosperity or otherwise of the concern. Besides, there are so many circumstances that are to be considered before anything like a correct computation can be made; the more so because the circumstances considered to be of value and importance in some particular cases may be, if applied to a different class of business considered to be trivial. Under these circumstances unless proper provision is made in the partnership agreement indicating the lines on which the Good-will of the firm on dissolution is to be calculated, expensive litigation or perhaps worse, a public sale of good-will by an auction would result. Of course there is nothing to prevent partners from expressly laying down that in case of death or retirement the Good-will is to belong entirely to the continuing partners. The usual provision is that it should either be computed through arbitration or on the basis of the average profits of a certain number of years. It is also usual to lay down in such cases a condition to the effect that in case of the sale of Good-will to outsiders on dissolution, the surviving partners who are not purchasers, will not compete with the old firm within reasonable limits or use the old name. This is all that need be said here on the question of Good-will. The author's book on Higher Accounting and Mercantile Law embraces further details to which the reader who is interested from the accounting or legal standpoint may refer.

**The Arbitration Clause :—**

Partnership agreements usually contain a clause by which it is laid down that all or any dispute between partners are to be referred to the arbitration of some person named, or to be selected hereafter, or to some one holding a particular office or position, as the President of the Indian Merchants' Chamber and Bureau. This minimises the chances of partners indulging in unnecessary litigation. Such a clause is legal and binding under exception No. 1 to sec. 28 of the Indian Contract Act 1872, as long as it does not deprive any partner of his right to appeal to a Civil Court and any stipulation that restricts such a right to appeal, would be to that extent void and unenforceable.

**Shares and Rights of Partners:—**

We have noticed that as far as the law is concerned, all partners are entitled to share equally and to take an active and controlling part in the working of the firm. This is of course subject to agreements to the contrary, and such agreements to the contrary are not the exceptions, but almost the rule. We have noticed that in actual practice all the partners do not devote equal time, labour, or capital, to the partnership business, nor are they generally possessed of a uniform standard of efficiency and experience. It is therefore usual to fix the shares of profits on considerations of ability, actual time employed and the actual share in the capital. On the question of control and direction also, a well organized firm ought to lay down fixed rules as to the powers and the scope of work of each partner by mutual agreement, to which all should strictly adhere. To those of the partners who possess expert knowledge or experience in the business of the firm, should be assigned the right of manage-



ment of the various departments of purchase and sale, whereas, the financing partners should control the finance in consultation with their managing colleagues. This control of finance also requires considerable care, caution and experience, and therefore, if the financing partner is not possessed of these, he should in his own interest engage the services of a trusted assistant of ripe experience, or should allow himself to be guided by his more experienced colleagues.

### **Dissolution of Partnership.**

With regard to dissolution, it has been laid down that in the following cases a suit may be brought by one or more of the partners to dissolve the partnership and if one or more of the following circumstances are proved to exist to the satisfaction of the Court, the Court may order the dissolution :—

- (1) When a partner becomes of unsound mind :
- (2) When a partner, other than the partner suing, has been adjudicated an insolvent under any law relating to insolvent debtors :
- (3) When a partner, other than the partner suing, has done any act by which the whole interest of such partner is legally transferred to a third person :
- (4) When a partner becomes incapable of performing his part of the partnership contract :
- (5) When a partner, other than the partner suing is guilty of gross misconduct in the affairs of the partnership or towards his partners :
- (6) When the business of the partnership can only be carried on at a loss.

**Accounts on Dissolution.**

It may be stated in conclusion that on a dissolution, when accounts are taken, as between partners, the following rules are to be observed :—

(a) Losses, including losses and deficiencies of capital, shall be paid first out of profits, next out of capital, and lastly, if necessary, by the partners individually in the proportion in which they were entitled to share profits :

(b) The assets of the firm including the sums, if any, contributed by the partners to make up losses or deficiencies of capital, shall be applied in the following manner and order :

- (1) In paying the debts and liabilities of the firm to persons who are not partners therein :
- (2) In paying to each partner rateably what is due from the firm to him for advances as distinguished from capital :
- (3) In paying to each partner rateably what is due from the firm to him in respect of capital :
- (4) The ultimate residue, if any, is to be divided among the partners in the proportion in which profits are divisible.

It may be added here that a suit for an account on dissolution of partnership is to be brought within three years of the date of dissolution.

It may be further noticed that each and every partner has a right, on dissolution, to insist on a sale of the partnership assets. No partner, in the absence of an agreement to that effect, can claim to have his own share, or that of his partner, valued by a valuer, or divided

in specie. Besides, the right of winding up the affairs of a partnership on dissolution is a personal right, belonging to each of the members of the firm, which cannot be taken out of the hands of other partners by the personal representatives or trustees of a deceased or bankrupt partner. The general rule with regard to the above is stated thus:—  
“On the dissolution of the partnership, all the property belonging to the partnership shall be sold, and the proceeds of the sale, after discharging all the partnership debts and liabilities, shall be divided among the partners according to their respective shares in the capital.”

### **Joint Stock Companies.**

The other most popular form of combination which has helped the modern industries a good deal in expansion, and promises to continue to develop in undreamt of proportions, takes the form of joint stock companies.

The actual process of incorporation, working and office organization of such institutions are dealt with at length in their proper sequence in course of the subsequent chapters, but for the purpose of this chapter we shall confine ourselves to a general survey as to the services rendered by these institutions to the business world and the points of interest as to their foundation and constitution.

Companies are formed either with a view to take over the business of some old firm with a view to extend and work the same on joint stock principles or an entirely new concern may be sought to be brought into existence through the medium of this form of incorporation.

The advent of these institutions on the scene has brought into existence gigantic enterprises with capital of millions of pounds, a capital far beyond the powers of a single

individual even in these days of multi-millionaires. The largest of all these enterprises is a *syndicate* which has just been incorporated in England with a capital of one thousand millions in pounds sterling with a view to finance the British manufacturing industries. The most popular form is incorporation under the limited liability arrangement, which enables investors even with small savings, to share the fortunes of the largest enterprise in existence, with no greater risk than that of losing the face value of the shares. It also encourages thrift and saving among the middle and professional classes, who in them find a medium of profitable investment, at the same time materially assisting in the development and progress of the industries and commerce of the nation. It has no doubt been argued with some force, that these joint stock concerns could not be expected to conduce to the same efficiency of work on the part of their directors, or managers, as in the case of institutions owned by private owners, who devote personal skill and labour; but in the absence of better substitutes, joint stock enterprises are accepted as a sort of compromise in these days when huge capitals are absolutely necessary for certain types of enterprises. To quote Mr. Hartley Withers from his excellent book on "Stock and Shares", "The needs of commerce have compelled the creation of a machinery which works with a good deal of jarring and plenty of loss and failure in individual cases, but well enough on the whole, though its most striking successes are still won in the fields which Smith and M'Culloch marked out as specially favourable to its efforts." It may be mentioned that their special fields according to the two gentlemen just named are enterprises "where businesses may be conducted according to a nearly uniform system—such as

dock, canal, railway, insurance, and banking companies.” To these may be added mining, manufacturing, hydrolic power, gas and electric lighting companies. There are, however, enterprises, where personal attention to details and anxious care on the part of those in charge are necessary, *e. g.*, purely trading firms. Here the joint stock company arrangement, pure and simple, does not stand equal chance of success as compared to a well managed and amply financed partnership. Some partnerships frequently don the garb of joint stock companies with a view to take advantage of the limited liability principle, but as the whole of the capital is practically held by proprietors who are the working genius of the concern, the distinction is but in name if viewed from the organization standpoint.

### **Control of Joint Stock Enterprises.**

Joint stock companies are technically supposed to be controlled by a Board of Directors, who are again supposed to be selected and elected by the shareholders. The directors technically stand on the footing of a board or a committee of management and are primarily responsible for the working results. A joint stock company is an inanimate body. The legal phraseology defines it as “an artificial person, created by law with a perpetual succession and a common seal.” It can therefore enter into contracts and deal with the outside world only through duly authorised agents. These agents, besides the directors, are the secretary or the manager. The manager is also occasionally designated the “Agent” in some companies. I have advisedly used the word “supposed” while speaking of the control and selection of directors. In theory the board is no doubt nominated by the shareholders, but in

actual practice it is often self-constituted. Perhaps worse, the members owe their office to the patronage of some obliging friends, who have been taking an active part in the company's promotion and who expect to hold the leading strings in the garb of the Secretary and Agent, a form of promotion so familiar to us in India. The interests of these Secretaries and Agents being frequently in direct conflict with those of the enterprise on the destinies of which they undertake to preside, the best working results can hardly be expected.

Great Britain does not seem to be better off in this regard. In the words of Mr. Hartley Withers in his work from which we have already quoted, "In actual practice, the notion that the Board is a committee chosen by the shareholders to supervise the conduct of the business in their interests, is found to be a delusion. The Board forms itself, or is formed by a promoter, before the company asks the public for subscription, and remains in office subject to a purely formal confirmation by the shareholders; when a vacancy occurs the Board chooses for itself a new member, and his appointment is, as a matter of ceremony, confirmed by the proprietors. The officers are chosen by the Board, or by one another, and joint stock companies are thus governed by practically a self-elected oligarchy, which is liable, in extreme cases of mismanagement or misfortune, to be turned out by a revolt among the proprietors. As a general rule, the shareholder is merely a necessary appendage who provides the capital, takes his dividends when he can get them, and has even less voice in the management of the company than the average elector has, in the conduct of the Foreign Office." "As a rule, a shareholder is a sleeping partner, who occasionally stirs in his sleep and delivers himself of more

or less relevant utterances at meetings." This picture so ably sketched, can as well be passed off as an accurate representation of the state of affairs in India. The only alteration that need be suggested is the substitution of the firm of Secretaries and Agents in place of the Board. The oligarchy in actual power that rules the destinies of a large number of joint stock companies in India, in the name of both its shareholders and directors, is made up of the members of the firm of Secretaries and Agents. The directors in a good number of cases, are mere figureheads whereas most of the usual powers of control and management are vested, as per the articles, in the all powerful Secretaries and Agents. It is not the least intention of the author to lose sight of the valuable services rendered by certain firms of Secretaries and Agents in India, both Indian and European, to the cause of industries, particularly the staple industry of this country *viz.*, the textile industry. In England as well, in the early days of company enterprise, considerable service in the work of stimulating the formation of joint stock companies, was rendered by a class of businessmen who gradually came to be called "company promoters," which expression finally received statutory recognition. Gradually as the company enterprise began to acquire a firm footing, some disclosures as to large profits made by the promoters, coupled with a few cases of colossal frauds by some of them, brought about a sort of reaction, and the company promoter began to be looked at with suspicion and disgust. There is still a large class of honest promoters who, it is acknowledged, still render excellent service to the cause of company promotion. The unsatisfactory state of control exercised by the shareholders, as depicted by Mr. Hartley Withers, may be taken as the inalienable appendages to the system of combination for

the working of an enterprise on joint stock company principles; for, whether a company is founded by a set of promoters who ultimately step into the office of the directors on the board, or by a firm of secretaries, or agents who select a board to suit their convenience, on which some of the members of the said firm hold office *ex-officio*, the attendant evils complained of by Mr. Hartley Withers cannot entirely be got rid of.

### **The Secretaries and Agents in India.**

The practice most prevalent in India, particularly in connection with cotton and jute mill companies is, that a firm of some outstanding reputation, which is generally an ordinary partnership, comes forward with a project which it wishes the public to be interested in, by buying up shares in the company which this firm proposes to promote. We shall take it that the project aims at the establishment of an entirely new business. The board of directors is selected by these promoters. The preliminary agreements, subject to confirmation after the incorporation of the company, as to the purchase of various assets, engagement of permanent officers, &c., are entered into by this firm of promoters. The articles of association, as well as the memorandum, are drawn out by a lawyer selected by the promoters, in which the powers to be exercised by this firm of promoters in their capacity of secretaries and agents of the company for over a term of years, are defined. The voting capacity of the shareholder, the most potent instrument of offence or defence, is also laid down. One has to look to this clause to ascertain how keen the edge of this weapon happens to be. If in some cases it is found to be blunt and rusted *e. g.*, the jugglery similar to the giving of one vote for every hundred shares, which left the voting



power almost exclusively in the hands of the promoters and directors, as was disclosed in a recent case of bank failure, is practised, the fault lies with the system under which the initial work has to be left in the hands of interested founders, for which the woeful neglect of his own interests on the part of the average shareholder is hardly the remedy. The articles generally provide for a monthly or a yearly allowance to be paid to the agents for office expenses besides a "commission". The commission is reckoned in the case of old agencies on the output or sale, or on the net profits made by the company. These firms of Secretaries and Agents originated in India with the advent of cotton mills. A good proportion of the shares of these cotton spinning and weaving companies were taken up by these merchant promoters. The excellent idea of getting their own firms named as "Secretaries and Agents" of the companies they promoted, naturally appeared to them as the most lucrative. Perhaps in the initial stage of the textile industry of this country, when the founders had to cope with difficulties almost unsurmountable, through the inefficiency of indigenous labour, unused to machine work, the system was considered a practical necessity. We cannot but admire the pluck and enterprise of the early Parsi founders of cotton mills in India *viz.*, Messrs. Cawasji N. Davar and M. F. Panday, followed by a string of magnets like the Petits, the Sassoons, the Tatas, etc. An amount of spade work had to be done which made the nursing care of a firm of Secretaries and Agents, having a very large stake in the capital and fortunes of the enterprise, most desirable. The cotton industry after passing through periods of alternating prosperity and vicissitude has ultimately developed to proportions unthought of. It would not be therefore out of place now to see that at least some

textile mill companies are promoted and run under an independent Board of Directors and a paid whole time manager. A firm of Secretaries and Agents in these days seems an unnecessary burden and tends to restrict the free exercise of the voice of the shareholders in the management and organization of an enterprise in which their savings are staked. Of course even the eventual disappearance of the hereditary Secretary and Agent will not remove all the disabilities and defects complained of, but it would at least lead to improvements in more than one direction. Our first class banking companies are run with independent boards and full time managers with great success. There is no reason why a similar experiment should not prove a success in case of cotton mills. An unlimited field for our first class firms of Agents will still be open in a country like India with vast unexploited resources. We should do very well indeed with a much larger number of mining, railway, shipping, canal and building companies. These can be taken in hand by promoters commanding public trust and confidence as the famous firm of Messrs. Tata Sons & Co., is doing, and thus help us to produce and multiply the wealth of India.

The legal position of these firms of Secretaries and Agents is, as the designation itself implies, that of servants and agents, who are entrusted with the management and supervision of the company with powers as defined in the articles of association of the companies concerned. They carry on the business of the company, sign all letters, bills, cheques and documents on its behalf except where, as in certain cases, they have to sign jointly with one or more directors, or where they have to act after consulting the board.

**Constitution of the Board.**

The successful organization and the control of joint stock companies largely depend on the constitution of its board of directors and more care and judgment is required here than is frequently displayed. The temptation to include gentlemen of title with very little business experience or training, seems to have proved all powerful in the past, with results disastrous from the point of view both of the shareholders as well as the directors. The recent banking crisis through which we had to emerge with considerable loss, both material and moral, forcibly illustrated the strength of this contention. Many well meaning and honest men of reputation and standing in public life, who were induced to join the boards of these companies, were simply led by the nose by dishonest managers through sheer lack of all knowledge of even the most elementary principles of banking business, which nearly encompassed their ruin. The subsequent disclosures in courts of law exhibited to public gaze amazing ignorance on the part of the directors, who presented a sight which was very pathetic. To avoid such disasters, the proper course as is now increasingly acknowledged all the world over, is to select men of business experience who are likely to substantially contribute towards the successful management of the enterprise. For this purpose it is best to mobilise the best business talents of the country, paying them substantial remuneration and insisting on their taking a genuine interest, devoting sufficient time and labour on the work entrusted to them. Co-operation of such a board of experts, with that of a capable manager and the staff, is bound to produce the best possible results.

### **Co-operative Societies.**

We have dealt with this branch of combination in the chapter on Industrial Organization and Efficiency at some length and therefore comments here are deferred.

## **CHAPTER III.**

### **Office Organization of Trading Firms.**

#### **Wholesale Business.**

Having dealt with the most necessary preliminaries we shall now proceed to deal with the organization of the various departments of a partnership business. We shall for our present purpose imagine that a firm is carrying on wholesale business and that it is divided into four departments *viz.*, Cotton Department, Coal Department, Wool Department and Crockery Department.

The Cash Department:—We shall first of all see how the finance of the concern *i. e.*, the Cash Department is organised. There is a head cashier and he is assisted by a number of junior cashiers or assistants. The head cashier keeps the General Cash Book which has separate columns for “bank,” “cash” and “discount.” The head cashier is supplied with printed receipts bound in book-form, with perforated counterfoils, which are also consecutively numbered, and instructed to acknowledge all cash received on these receipts. On every invoice as well as debit note sent out by the firm, intimation is printed in red letters to the effect that all receipts not acknowledged on the firm’s printed forms will be deemed worthless. When the head cashier receives cash, he has to fill in one of the receipt forms—forms in the receipt-book, filling in the

original and the counterfoil coupon at the same time. He signs the original receipt, initials the counterfoil, which remains with him, and hands over the original receipt to the customer. If the cashier is not empowered to sign the receipts, he gets the same signed by the departmental manager concerned. He then proceeds to enter the amount in the cash book on the debit side, placing the number of the counterfoil in the "voucher number column"—a special column to be found on both sides of the cash book—in the same line with the amount received.

With regard to payments, the best rule followed is to make all payments by cheques, crossed wherever possible, whereas, only in case of emergency, or absolute necessity, the payment is to be made in cash. The cheques are all filled in by the head cashier, or his assistants, and then presented to be signed by the head of the department concerned. A receipt from the payee for the amount paid has to be obtained and in case of payments over Rs. 20, the same has to be stamped. These receipts are then pasted in a book called the "voucher guard book." They are then consecutively numbered in the proper order, the number being placed on these vouchers either in red ink or in blue pencil, which numbers are then recorded in the "voucher number column" in the cash book on the credit side in the same line as the amount of payment. It will thus be noticed that there is a proper voucher for each of the receipts and payments. The cashier never makes a payment unless the bill or invoice against which the payment is to be made is duly certified by the managing partner concerned. Thus a thorough check is maintained on all payments coming in and going out. The auditors of the firm will thus be able to easily check the receipt-

book counterfoil with the amounts and details as entered on the cash book debit side and then verify if they are properly posted in the ledger. With regard to payments, the auditors will be in a position to check them with the counterfoils of the cheque books, as well as with the "voucher guard book", where the "receipt voucher" from each of the payees is carefully pasted in their numerical order. The cheque book counterfoils are also checked by the auditors with the bank pass book to see whether the payments were actually made by the bank.

**Petty Cash :—**Petty expenses such as postage, cartage, cooly hire, packing, stationery, etc., are sometimes too numerous to engage the attention of the head cashier and it is often arranged in large concerns of the type we are dealing with, to allocate to a particular clerk the duty of acting as a petty cashier and the petty cash is kept on, what is known in book-keeping, as the "Imprest System of Petty Cash", under which the head cashier advances a sum at a round figure, say £ 20, to the petty cashier by drawing a cheque in favour of the petty cashier. The petty cashier cashes the cheque, makes all the petty disbursements, for which wherever possible he obtains receipts, and at the end of the week presents his account to the head cashier. We will suppose that his detailed expenditure in the week amounted to £ 15-10-0, for which he accounts to the head cashier as paid for telegrams £ 10, cartage £ 5 and postage 10 s. The head cashier passes an entry in the Cash Book on the credit side according to the ordinary rules of book-keeping, debiting these heads of accounts and hands over to the petty cashier a further cheque for £ 15-10-0 i.e., the actual amount the petty cashier has accounted for, thus replenishing the petty cash in order to make it up to the original figure of £ 20.

**Credit Information and Collection of Accounts :—**

The object of this branch of work is to arrange a system by which the most accurate information could be obtained, filed and kept up-to-date, as to the credit and standing of parties who deal, or are likely to deal with us. In old-fashioned business offices, including banks, this branch of work is left to the cashier. The second branch of work indicated by the heading *viz.*, the collection of accounts, is also more or less left in charge of this generally overworked official. Perfection and accuracy can hardly be expected under the circumstances. The trained business managers should never allow this state of affairs to continue. Large amounts are often written off yearly by business houses as bad debts that could have been saved through the efficient handling of credit information work and a proper system of collection of accounts. Every firm of any magnitude or importance should maintain a department such as the "intelligence and collection department," the principal work of which is to collect and file information as to the standing and credit of both the wholesale and retail firms with which credit business is done. For this purpose, in small concerns, a book called the "Opinion Book" is maintained with an alphabetical index on the first few pages. One or two pages of this book are devoted to each name, which is indexed and the details collected are written out on the pages assigned to each. The information is dated and kept up-to-date by insertion of new reports from time to time. The general practice is to revise these reports at least once a year. The information collected may be generally placed under some or all of the following headings :—

**Firm's Name.**

**Partners.**

Financial standing of each.

Do they hold landed properties, if so of what value?

Are they encumbered; if so up to what extent?

What is the value of the stock-in-trade generally maintained by the firm?

What is the yearly turnover?

What is the reputation of each partner individually and the firm collectively as to honesty and resources; whether he is speculative or sober in his dealings?

What is the amount they are good for and for what time?

Are they competent and experienced?

When the credit customers are numerous, beyond the scope of a single, or a number of opinion books, the information reports may be kept in folders, filed as per the vertical system of filing, with either an alphabetical or numerical card index. This method of filing is dealt with in a separate chapter.

In case of joint-stock companies, the information required is collected from the balance sheets and published accounts as well as from bankers and the bazaar merchants. Character element plays an important part in this type of concerns, though of course the same by no means should be ignored in case of private firms. Are we not frequently meeting with instances, where the balance sheets periodically proclaim concerns that are rotten to the core, as being financially sound? The head of the credit intelligence department should never allow himself to be guided entirely by these statements, but should work hard to find out all the secrets as to the inner work-



ing of these concerns and for that purpose should keep himself closely in touch with the market gossip, each time trying to test the strength and truth of each story that the daily excitement of a busy market brings out by way of relaxation. A firm or company, whose directors are inclined to be speculative, are to be watched with great care and anxiety in spite of its prosperity and capital.

In case of concerns situated outside the district, information may be collected through business friends situated in the same locality, or through bankers who generally maintain branches or agencies in all principal towns. In Europe and America "Information Agencies" are conducted either under the auspices of local Chambers of Commerce, trade associations, or by private individuals. These agencies undertake to furnish confidential information as to the standing and credit of firms situated within a certain radius for a small charge. There is no reason why such agencies should not be started and developed in the principal towns of India, either by our Indian Merchants' Chambers, or by men of established standing and reputation.

The Intelligence and Collection Department should undertake the work of collecting accounts. The Accounts Department should from time to time send out returns of balances due from customers, together with the duration for which the accounts are left unpaid, to the credit information and collection department, whose duty it is to see that the same are collected without undue delay. Being in close touch with the latest information as to the fluctuations in the credit and the standing of each of these firms, this department is in the best position to judge where a

polite reminder and where a more vigorous demand is necessary to bring about the desired effect. As a rule the department should begin with a polite reminder, which may be followed by one or more similar letters as the knowledge as to the standing of the firm addressed may dictate. Finally a more emphatic demand may be resorted to. The different forms of letters used under the circumstances are given in the chapters dealing with correspondence.

In case of firms who sell to a very large number of customers on the instalment plan, articles such as pianoes, sewing-machines, furniture &c., the best plan is to keep the accounts on separate cards, on which are recorded the consecutive numbers of the contracts concerned, together with particulars regarding the conditions of sale, which are also entered in detail in a special contract-book kept for the purpose. The contract itself may be filed and indexed. Each card bears the consecutive number assigned to the contract of that particular customer, the total amount due on the contract, the amount of instalment payable and the due date of payments of such instalments. As each instalment is paid, the same is entered to the credit side of the customer's card and the balance due is shown in a separate "balance" column. If the arrangement includes the payment of interest in case of delay, a column is maintained for that item also. At the end of every month a return of the total receipts by way of instalments is made out for the General Ledger-keeper who passes the entry for receipts under the heading of each department viz., Piano Department &c.

The instalment ledger card should be in the following form:—

No.

Name.

Address.

Occupation.

Amount of contract Rs.

Date of contract.

Date of instalment collection.

Date.	Principal.			Interest.		Balance.			Remarks.

When these instalments are collected through bill-clerks or bill-collectors, the best plan is to furnish them with receipt-books containing receipt forms which are counterfoiled. On these the actual amount received by them is written signed and handed to the customer. A note of the same is also made on the counterfoil. If possible, the payee's initial on the counterfoil ought also to be obtained. Thus the collection when accounted for by the bill-collector may be checked with the counterfoils.

In case of remittances sent either direct or through the post, entries may be made straight off in the ledger-cards.

### **Purchasing Department.**

The organization of this department is of vital importance as to the degree of success with which the business can be managed, whether wholesale or retail. The head~

of this department should keep himself in close touch with dealers and manufacturers from whom he purchases. A regular list of these ought to be maintained, which may be added to, and the latest catalogues and price-lists should be regularly collected and properly filed within easy reach. The names of these dealers and manufacturers should be grouped in proper order under the designation of the articles obtainable through them. The catalogues are kept together in a library order and filed on either the alphabetic or numerical order and carefully indexed. Over and above the regular catalogues and price-lists supplied by these dealers and manufacturers, the firm receives from time to time what are known as "special quotations" which ought either to be filed, or indexed separately, or when they are not numerous, they may be filed along with the regular catalogues.

To certain officials and clerks is assigned the duty of reporting to the head as to what class of goods are "low" in stock, as per the margin laid down, on whose report the head takes action in time so as to avoid loss and inconvenience arising through any of the articles getting out of stock. A well-organized business should never be short of stock and all the time and trouble devoted to this branch of organization is bound to amply repay in its results. During what is known as the "season," the articles which are likely to be in the greatest demand should be adequately stocked, otherwise the stock is likely to run short at the very time when there is a possibility of effecting the largest sale. Even worse, a late order may bring in the goods too late for the season, thus involving the firm in greater loss, both through the loss of opportunity for sale and the burden of carrying over a heavy stock to the next season, by which time it might get out of fashion.

Every department of the firm sends out its orders on regular printed "Order Forms" of the firm. These "Order Forms" are printed and bound in book-form consecutively numbered and duplicated. The Manager of the particular department when he fills up the "Order Form" takes a carbon duplicate which he keeps with him in the book itself. The original "Order Form" is filled in and signed by the Manager. Very often the firm sends out orders for purchases on account of contracts that the firm has entered into, in which case the order always refers to the purchase-contract on which the same is based. When the goods come in, in response to these orders, the invoices of the goods are to be carefully checked by one of the clerks of the department to whom the work is allocated. The first thing to be checked in the invoice is the quantity ordered with the quantity supplied, for which the clerk has to refer to the carbon duplicate in the Order Book. He has also to see whether the goods supplied are of the same quality as stated in the order. He has then to see if the price is correctly charged. For that purpose he should see if any price is indicated on the "Order Duplicates." Where the purchase is made on account of a purchase-contract by the firm, the clerk has to refer to the original contract. All the calculations in the invoice itself should also be carefully checked. Mistakes are frequently made in ordinary mathematical calculations to the detriment of the firm to whom the invoices are sent out. Thus the time and trouble devoted to these minute details are amply rewarded. These invoices are then sent on to the counting-house or the accounts department where they are entered in the "purchase-journal." The purchase-journal is ruled as under :—

Date.	Amount.	L. F.	Invoice.	Cotton.	Coal.	Wool.	Crockery.	Expenses.

The student here notices a number of columns, each for a separate department of the firm together with the amount column which indicates the total amount of purchases made from the firm whose name is found entered in the column headed "invoice". The invoice is practically speaking analysed and a one line entry is made in the purchase-journal stating the particulars of the invoice in the invoice column viz., the name of the purchaser, the amount of actual goods purchased for each of the departments being entered in each of the separate columns reserved for each of these departments, and the total expenses being entered in the expenses column. This method of maintaining separate columns for each department gives us separately, the total monthly purchases of each of the departments. The expenditure column gives us the total expenditure on purchases. It also facilitates the posting of the ledger. What is done here is that each of the firms from whom the goods were purchased as per invoice column, is credited in the ledger separately for the total amount of purchases as per the amount column, and at the end of the month, totals are taken of the cloth, coal, wool and crockery and the expenses columns and the accounts are debited for the totals of the respective columns of the total, thus making a complete double entry.

### **Sales Department.**

In the case of the Sales Department, care has to be taken to see that the department is left in charge of those who

are experts in the line and know how and where the goods dealt with by their firm can be sold to the best advantage. A number of salesmen are employed even in the case of wholesale business to go round and secure orders. The men should be imbued with enthusiasm in their work and should know the articles they are attempting to push in all their details including both their strong and weak points, in comparison to those of competing business-houses. In the case of an entirely new business, a prolonged selling and advertising campaign has to be maintained, for which sufficient capital should be provided at the time of assessing the actual financial requirements of the contemplated undertaking. The technicalities of an advertising campaign ought to be thoroughly mastered by the capable head of the Sales-Department who should select and engage specialists to assist him in carrying on this campaign either as full time employees or on the basis of professional fees. Once a capable head is selected for the Sales-Department, the proprietor or director should give him a fair chance to display his talents and interfere as little as possible. In case of wholesale dealers both in commodities such as tea, sugar &c., which are articles of every day want and also in case of manufactured goods, nothing pays better than selling the same through the agency of salesmen travelling from place to place and establishing a direct connection with the retailers all over the country. This branch of work of the Sales-Department is woefully neglected in this country and sales of these particular articles are left simply to chance, or to the slow process of recommendations by business friends. There is an unexplored field, full of potentialities in this direction, which can be used by well organized firms of wholesale dealers through the help of enthusiastic salesmen, who are rewarded

according to their working results. This is fully recognised by European and American firms who take the full advantage of their opportunities. An average Indian merchant hardly realises to what extent his sales can be multiplied by paying more attention to this branch of organization. A good salesman is said to sell not only what the customer thinks he wants, but like the advertiser he creates wants where they did not exist and thus multiplies the demand for the articles sold by his firm. In case these articles are really good, this demand is likely to be constant, and if the goods sold by a particular firm are designated by a brand or mark, such a brand will soon establish a lasting reputation. The heads of the Indian cotton, wool and silk mills do not yet seem to fully realise this. If they were to properly advertise their goods, open up shops for the sale and exhibition of their manufactures and try to push them with greater vigour through travelling salesmen than they seem to be doing at present, their sales can be multiplied in these days of swadeshi sentiment, provided of course their manufactures are worthy of public patronage.

Returning to the salesmen, the head of the Sales-Department should assign to them a particular district or market for the exercise of the individual activities of each. The most suitable men ought to be selected for this work and the division should rest on the basis of ability as compared to the requirements of a particular district or market concerned. In case of travelling salesmen the system, adopted by some of the British and American firms known as the "map and tack system" should be maintained. Under this system each traveller is assigned a ribbon and tack of a particular colour which is fixed over the route he is assigned on every tour. When he reports



on his having reached a particular town en-route, the tack is removed from the area covered by the route he has already travelled. Thus it could be ascertained at a glance at the map as to how many salesmen are on tour and as to their present appointments, location, etc. The travelling salesman generally fills in a card indicating the names of the firms on which he calls and a remark as to the result. This card is placed in an envelope and sent to the manager of the Sales Department, who records the same after sending the traveller any instruction that may be necessary. When the salesman returns, this card also forms a useful guide for the discussion of the situation in the district travelled. These are also useful for following up any enquiry or promise, that may have been made to the salesman during his visit by the firms visited, which is done by sending them circular letters etc., on the subject, thereby eventually inducing them to become the firm's customers.

### **Sales Record.**

All well organized Sales Departments of modern business maintain what is known as a statistical record of daily or weekly sales. This is done with a view to compare the sales fluctuations from month to month in each department and also in each district where these goods are sold. The sales as exhibited by this record fluctuate during each month owing to various causes, and the head of the Sales Department should keep himself in touch with these fluctuations. During what is called a season when particular goods are largely in demand, the sales in that class of articles rise as compared to those of other months. The records of a particular month during the current year as compared to those of the same months in the year preceding, will form an excellent guide as

to whether the department is progressing satisfactorily. If these records do not exhibit satisfactory results, the management is in a position to investigate and take action as the circumstances and experience may suggest. The following sample-form will be a guide as to the form in which these records are made out.

Sales for the month ending 31st January 1917.

Depart.	Bombay.	Central Provinces.	Madras.	Bengal.	Total.
Crockery ...	19000	10000	8000	7500	44500
Cotton Goods .	6000	2000	1000	3000	12000
Cutlery ...	7591	6721	2115	2111	18538
Provisions ...	1126	659	858	200	2843

### Sales by Consignments.

Besides the usual and ordinary sales against orders actually received, either direct or through travellers and agents, sales are also effected through the medium of consignments sent on account of the seller. This is done either with a view to introduce a particular brand or quality in a new market, or to get rid of the extra stock for which there does not seem to be a sufficiently encouraging local demand. The consignor makes out what is called a *pro-forma* invoice for the goods forwarded indicating the price he expects and adds to the same the usual packing and other expenses incurred on these goods. Frequently, by a previous arrangement with the consignee the consigner is able to draw a bill for a portion of the invoice amount by way of advance. The consignee on sale makes out an account-sale, showing the amount actually realised and deducts from the same his expenses and commission. The balance after

deducting the advance payment that may have been made, is remitted by him as per arrangement. In this case the venture is entirely on account of and at the risk of the owner of the goods, the consignee here acting only as an agent for sale. In case any loss is occasioned through the failure of the buyer, that loss also falls on the consigner, unless an extra commission over and above the usual percentage is allowed, known as the *del credere* commission.

Many manufacturers, unknown in foreign markets, have resorted to this method of introducing, or "forcing," their goods on new markets and frequently shipments have been sent to firms of auctioneers in foreign countries with instructions to sell at the best price offered. Even though these ventures result in losses, the loss is written off as an item of advertisement. If the quality of the goods is good in comparison to those of other known makes, this results in a demand which is nursed and converted into permanent business.

**BROKERS :—**Brokers are engaged in wholesale businesses to effect sales. Each broker commands a sphere of influence of his own and his services are valuable in pushing the sales. The broker is in the first instance, the agent for the seller, and when he finds a buyer, he also acquires the status of being the buyer's agent. After effecting the sale, the broker makes out what are known as the "Bought" and "Sold" Notes, which are to be identically worded and signed by the broker. The "Bought" Note is then forwarded to the buyer and the "Sold" Note to the seller, which form binding contracts on both the contracting parties.

As to the record and account keeping in the Sales Department a system similar to that of the Purchase Department is followed. Sales are made by the firm either for cash,

or as is most generally the case, on contracts. Whenever an order is received which is based on a contract, the departmental manager concerned has first of all to note as to what contract it refers. He then attaches his private "Memo" to the order, indicating the price which is to be charged and whether credit is to be allowed. He has also to state if any deductions by way of discount etc., are to be allowed. The order is then passed round to the department to which it refers and as soon as the goods are ready for despatch, or are despatched, the invoice is made out and initialled by a responsible clerk and is then checked and initialled by another clerk. The invoice is then press-copied in a special book kept for the purpose and sent out as per instructions on the "Memo" that was attached by the general manager to the original order. An entry is now made in the "Sales-Journal" which is ruled on the same lines as the "Purchase Journal". A one line entry is made with regard to the sale in the Sales-Journal in exactly the same manner as in the case of the Purchase-Journal. The only difference being in the method of posting in the Ledger where the firm concerned is debited separately for the total amount of sales as per the "amount" column and at the end of every month the various columns for the various departments are totalled up, and the departments concerned are credited with these totals.

### **Bills and Hundis.**

With regard to Bills and Hundis, the rule followed has to be methodical and regular. It is the duty of the head cashier and his assistants to see that all the bills accepted by the firm are punctually paid on the day on which they fall due, and for that purpose to see that ample cash is available. The General Manager should be

kept informed as to what bills have to be met from time to time. The Cashier keeps a regular diary in which he enters the particulars of each bill on the page of the diary allotted to the date on which each bill falls due. This is done in case of bills accepted by the firm viz., bills payable, as well as that of the bills that are accepted by others and for which the firm is to receive money viz., bills receivable. Both these bills are of considerable importance and must seriously engage the attention of the cash department, because in case a bill is not paid for by the firm on maturity, the firm runs the risk of losing its credit in the bazaar. Bills of exchange enjoy a peculiar sanctity in the eyes of the mercantile community and the delay in payment of a single day may bring about serious consequences.

With regard to the bills for which we are to receive money viz., bills receivable, it is equally important that they should be presented for payment on the proper date of maturity. If this is not done by some neglect on the part of the cashier, and if the acceptor in the meantime fails, the holder of the bill loses his rights as against the acceptor and all previous endorsers.

## CHAPTER IV.

### Office Organization of Trading Firms.—*Contd.*

#### Retail "Stores" on large lines.

The retail "stores" business has made rapid strides during the last few years in all the principal towns of Europe and America. In India also we find some efforts made in that direction, but in the absence of a thorough grasp of the principles underlying this line of business we have not made as yet any appreciable progress in this direction. We have of course a few stores run by Euro-

pean traders of the type of Messrs. Laidlow, or the Army and Navy stores, and indigenous enterprise has also brought into existence the now famous Swadeshi Stores, but all these efforts seem to be insignificant and small compared to the gigantic scale on which similar business is carried on on the other side of the water. A large country like India, with its teeming population of millions and its ever increasing demand for various articles of the class generally dealt with in this line, affords an excellent opportunity for the development of stores enterprises if run under expert supervision and organization.

The stores may be organized and worked either on the (1) Departmental or (2) Multiple shop arrangement.

### **Departmental Stores.**

In case of Departmental Stores the idea is to divide a huge shop, located at some prominent place, into so many smaller shops within its fold, each worked under a special manager and a complete equipment of salesmen. Efforts are then made through advertisements and other methods of practical publicity, to draw customers to the shop from all parts of the town, who are served by each of these departments. The chief manager in these stores is no doubt the central figure who organises and directs, but it is always best to make the manager of each department responsible for the working results of his department. In some cases, the actual profit and loss account of each department is made out separately, to which the direct expenses of the department concerned are debited. A proportionate charge is also allotted to each department out of the general expenses of the whole establishment. The prices of articles of each department are fixed by the departmental manager in consultation with the general manager and here a fixed percentage is added to the cost of articles as per the scale

suggested from time to time, by the general manager, in consultation with the Board of Directors. Thus each departmental manager is responsible for the working results of his department which is expected to be progressive. His promotion as well as that of his staff are made to largely depend upon the results thus exhibited.

### **The Office Record.**

The actual system of record employed is worked more or less on the following lines:—

Suppose that the departmental stores with which we are concerned is divided into twenty departments, in each of which are grouped articles that admit of a uniform percentage of gross profit being added to the cost and to each of which is allotted a fixed location within the shop. We may group each of these departments under the designations of Boots and Shoes department; Grocery Department; Cutlery Department; Hats Department; Silk Department; etc., with a complete equipment of salesmen and a manager at the head. Each salesman is known by a distinctive number allotted to him and each is supplied with a "Cash Memo" book bearing his number on the cover, as well as on each of the memoes. The memoes are consecutively numbered with duplicates for carbon copies and bound together with small marginal counterfoils. The salesmen of each department are instructed to serve customers only with regard to the articles allotted to their respective departments and to guide them to the proper departments in case any item foreign to their departments is wanted. When a customer is served, the cash sale is entered on one of the memoes and a carbon copy is taken and the amount is recorded in the counterfoil. The customer is then asked if he wants to carry the articles himself. If so, they are tied in special wrappers supplied to them bearing the firm's name. These

wrappers are issued alternately in different colours so that when bundles are taken out, the footman at the gate may notice them, lest a shop-lifter may not carry away stolen articles under the excuse of having bought the same. Some stores use coloured ribbons for this purpose. If the customer wishes the articles to be sent home, his name and address are taken down on a label, the label is attached to the packet and the packet laid aside in the proper heap arranged according to the location of his address in the town for the convenience of cartmen employed by the stores. The next step is to lead the customer to the cash desk at which the salesman is instructed to get all his sales paid. It may be noticed here that the cash desks are located at convenient places with an assistant cashier in charge, at each of which a particular set of salesmen are instructed to pay their takings. These assistant cashiers are constantly shifted from one desk to another to avoid their getting too familiar with the salesmen. When the customer is introduced by the salesman to the proper desk, the latter hands over the two memos, the original and the carbon duplicate, to the cashier, who, on receipt of cash direct from the customer, signs and returns the original to the customer, retaining the carbon duplicate for his record. The cashier at his leisure fills up a form given to him for the purpose. These forms are bound in a book called the "Desk Summary Book" and are ruled as under:—

[illegible]



It will be noticed from the above that the form is made up of the amount columns bearing numbers 2, 5, 7, 10, 13, 15, 18. These numbers indicate the numbers of the salesmen instructed to pay at this particular desk. This "Desk Summary Book" is filled in and totalled daily at the close of the day, the totals indicating the total sales effected by each salesman on that day, which are checked with the returns furnished by each individual salesman on his form of sales which are written up by him from his record on the margin of his cash memo-book. The "Desk Summary Books" as well as the salesmen's sale forms are sent up to the counting-house department which is located in a remote part of the office out of the public gaze, generally on the top floor or in a separate building. The books and forms written up for Monday, are forwarded to the counting-house on close of each day, and in return those of the previous working day viz., Saturday, are returned for record of Sales on Tuesday following. In other words two sets are used alternately. The counting-house checks the record of the previous day and the head cashier passes the appropriate entry in the cash-book, crediting the department concerned and debiting the cash account. From each salesman's record, after it is duly checked with the "Desk Summary Book" concerned, his commission on sales is credited to his account. This form of record not only affords a check on the salesman's sales and each assistant cashier's daily takings, but it also serves as an indicator to each head of the sales' department as to the individual capacity and activity of each salesman, who is congratulated on or called for an explanation on the progress or retrogression of sales put through by him weekly. The departmental stores generally deal in cash, but there are instances where in case of some institutions, short credits are allowed

to selected customers. For this purpose a list of approved credit customers is maintained and written up from time to time, which, when a salesman is asked to serve on credit he refers in case of doubt and after effecting the sale, he uses a distinct book furnished to him, called the credit memo-book, which is numbered, duplicated and marked on almost the same lines as the cash memo-book just noticed. The original of the credit memo is handed to the customer, the carbon duplicate with the signature of the customer being retained by the salesman. These credit memo-books are forwarded to the counting-house department daily, with a separate record of credit sales by each salesman, two sets being used alternately on the same lines as in the case of cash sales. In the counting-house, the ledger clerks debit each customer in the customer's ledgers maintained on the principle of alphabetical division and the head accountant passes one journal entry for the day for the total sales, debiting sundry debtors' account and crediting the different departments concerned. Here as we have already remarked, the credit sales being made on short credit and for small amounts the alphabetical ledger, —which is a subsidiary book maintained principally for record and quite distinct from the General Ledger and not forming one of the books of the financial set—is divided and worked on the dictionary order. If for instance, the customer concerned is known as Robert Crew, the division of the ledger containing the accounts beginning with the letter C is opened and a one line entry is entered on the debit side stating the date in the "date column," address in the "address column," number of the credit memo-book in the next column and the amount of the sale in the "amount column." The credit side is left blank, to be written up when actual cash is received from the customer. This

credit entry is frequently made in red ink, showing the date in the "date column" and the cash and discount in the particular columns, together with the desk memo number and the actual figure of cash paid in the "amount column." The following will explain the entry:—

*Dr.**Cr.*

Date.	Name.	Address.	No. of C. M. B.	Amount.	Date.	No. of D. M. B.	Amount
July, 4	Crew, Robert.	Hornby Rd.	55	Rs. 234 5 6	May 12	Cash & Discount.	47 Rs. 234 5

### Stock Checking.

The check on the stock of the departmental store worked under this system is easy. As a fixed percentage of profit is added to the cost, of course varying in case of each department, but which is uniform in case of all articles dealt with by any particular department, all that need be done is to take the stock at the commencement of any period, to which is to be added all the store supplied during the period under review. From this, when the sales at the cost price are deducted, the balance indicated represents the stock of that department at the cost price, ready to be checked with the actual inventory taken after actually counting the stock item by item. The following illustration will explain the point:

Supposing that our stock at the commencement as per last statement for the crockery department was Rs. 10,000, at the cost price, our supplies to this department since that time amount to Rs. 50,000, at the cost price and our sales during the same period amounted to Rs. 60,000.

at the selling price, the stock check account will work out the stock on hand as shown below :—

### CROCKERY DEPARTMENT.

*Stock Check Account for half year ending 1914.*

*Dr.*

*Cr.*

	Rs.	a.	p.		Rs.	a.	p.
June 30.				Sales at selling price...	60,000	0	0
Stock at commencement at cost ...	10,000	0	0	Less 20% profit on cost price ... ..	10,000	0	0
December 31.					50,000	0	0
Purchase at cost ...	50,000	0	0	Stock in hand at cost on 31st December 1914.	10,000	0	0
	Rs.	60,000	0	0	Rs.	60,000	0

This amount shows a balance of Rs. 10,000, as the stock on hand ready to be compared with the actual stock inventory. If there is any material difference, the departmental manager can be called to account.

### Multiple Shop.

Under the multiple shop arrangement the dominating idea is not to concentrate the whole business in one centre and then attempt to draw the customers to it as in the case of departmental stores. Here, an attempt is made to approach as near the customer as possible, by opening a large number of smaller shops in different localities under a manager in charge, and by directing the working of the same through the central office of the depot. The other departure from the departmental stores' practice, is to specialize in a particular set of articles in which the firm has chosen to deal, instead of, as in the departmental stores, playing the part of universal providers. The advantage

claimed for this type of organization is, that as a certain line of goods is dealt in on large lines, the purchases are made from manufacturers on the most advantageous terms, and that specialisation enables the proprietors to make the best selection. They are able here to keep in close touch with the varying requirements of the market and supervision becomes very easy on account of the simplicity of work resulting through dealing in one line of goods only. The method employed is to keep uniform prices for all articles after charging a fixed percentage of profits at the central dépôt or office. The individual shop manager is kept entirely in the dark as to the cost of the articles dealt in. He is supplied with the stores at the selling price and has to account for same on the same basis. Here, the stock taking is even simpler than in case of the departmental stores. A progressive result in sales and the lowest possible expense in proportion thereof is expected of him. An attempt is also made to create a sort of incentive to bring in as low a percentage of expense as possible through the offer of a bonus and promotion, as well through the creation of healthy rivalry between the different shop managers. The system of record as to sales may be arranged on almost the same lines as that indicated in the departmental stores. There, the shops were all concentrated in one building under the designation of departments, whereas here, they are located at different places. The distinction therefore is but in name as far as account-keeping and records go.

### **The One Price Shop.**

The other form which the stores' branch of trade has taken of late in Europe and America is working on the "One Price System". We are familiar with this type of trade done by a certain class of hawkers in German and

Japanese cheap assorted articles, but the idea of the opening of a number of shops under a permanent organization mainly to deal on these lines, does not seem to have occurred to any of our enterprising businessmen. Here, the central office selects a large number of useful articles, which it buys on wholesale lines from those manufacturers who specialize in the manufacture of the same. The price fixed per article is the popular price of  $6\frac{1}{2}$  d. or a shilling per article. The location of shops is arranged by the central office after careful deliberation. The shops have to be located in those places where a large number of people congregate, such as a bazaar, or near some large store which advertises largely and draws a large number of people, or in an exhibition, public fair, etc. Every possible opportunity is taken of opening temporary shops where people are likely to congregate, and by display and posters, attempts are made to draw customers in for purchase. The location of each of these shops is constantly altered on a well regulated plan worked from the central office, and for that purpose, shops temporarily vacant in prominent places are taken on short leases of a month or two and made the most of. As these shops appear to outsiders to be constantly closing and shortlived, the general public is under the impression that this class of business is the least paying, the profit making possibilities being only known to those having a working hand in them. None the less it is a well regulated business, substantial and permanent so far as the central dépôt goes, though the magic lantern slide arrangement in connection with the shops may create a misleading impression on those who are ignorant as to the system of work. These shops appeal to the bargain making instinct, otherwise known as something for nothing instinct, of the human race, and the result is that a large number of people go in and buy things they never wanted

or are likely to want. The managers in charge of the shops keep the central office informed about the daily sales and guide them as to the class of articles mostly in demand. A number of assistants are also employed to report on new locations, where temporary shops can be leased, and as to the possibilities of the localities concerned. Before a new location is selected, all possible enquiries are made as to the number of people who frequent the locality, particularly that class which is likely to be attracted to these shops. The managers are instructed to bank their daily takings and are furnished with cash from the central office for their expenses on the imprest system, for which accounts are periodically furnished to the central office. In certain localities shops may be maintained on a permanent basis if experience warrants the desirability of such a course being adopted.

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## CHAPTER V.

### Indent Business.

#### Its Basis.

Numerous European and Indian concerns carry on what is popularly known as the "Indent Business" either exclusively, or as one of the branches of their trade. The object here aimed at, is to serve as middlemen between the bazaar buyers in India and the manufacturers in Europe or America. Lately Japan has also entered within the folds of this market and indent firms are now largely dealing with that country also. The local indent firm secures orders from the local dealers for an article which is either of a well known brand, or on a sample which it received from its foreign agent and forwards the same to the latter to be placed with the manufacturer. If the indent is made out for a price quoted, or on a firm offer received from

the foreign agent, the contract is immediately closed; if not, it serves as an offer from this side which has to be accepted by a formal confirmation from the other side. The profit made by the middlemen concerned is supposed to be made up of a commission varying according to the nature of the article indented. In case of articles of well known brands the names of the makers, as well as the wholesale prices are "open" *i. e.*, known to all the dealers. Here, the percentage of commission arranged, forms the margin of profits for the middlemen; whereas, in other cases particularly in trades where, beyond a mark or stamp as to the country of origin there is nothing to indicate the name or address of the manufacturer, the middlemen generally succeed in reserving an extra margin of profit *i. e.*, one over and above their usual commission. At first sight this type of combination appears to throw an undue burden on the dealer; but it is not so in practice. A large number of dealers in the East are not conversant with the intricacies of foreign markets—in fact the bulk of them are incapable of carrying on direct correspondence—who find it difficult, if not impossible to replenish their stock without the assistance of indent firms. A good many of them find it impossible to arrange for a direct credit with the local or foreign bankers with regard to their imports. The presence of the foreign agent of the indent firm on the spot ensures the shipment of the proper article after selection, thus avoiding unnecessary delay and inconvenience. In case of claims as to breakage, inferiority, indifferent packing &c., they are in a position to lay their case before the manufacturer with greater effect through the assistance of the influential foreign agent on the spot. An energetic and influential agent in the country of origin keeps the dealer, through the



medium of the local indent firm, closely in touch with new innovations in the line, thus helping him to take immediate advantage of a cheaper article newly placed on the market. The foreign agent having acquired a special knowledge and experience as to the requirements of the Eastern Market, is in a position to lay his views before the manufacturers personally as to the varying requirements of his clients. The foreign agent is also in a position to secure the most favourable terms for his clients as to freight and insurance, as he generally contracts in a large way with shipping and insurance companies on behalf of his numerous clients. There are also instances where the indenting firms hold sole agencies for certain brands and the dealer can secure these articles only through the medium of these monopoly holders.

### **The Form of Indent.**

The indent firm employs a number of salesmen who are in close touch with the local dealers and report to the manufacturer from time to time as to the requirements of the market and the credit and standing of individual dealers. When they secure an order or indent either on a sample they have interested a dealer in, or in some known article, they get the same from them on a printed form of their firm which embraces clauses and conditions of the contract. The form given below indicates the usual terms on which indents are taken in practice:—

<i>Cowasji Brothers &amp; Co.,</i>	Indent No. 1158.
Merchants & Commission	Code Cypher— <i>Calabash.</i>
Agents, BOMBAY.	Bombay, 5th July 1915.
On account of _____	
To MESSRS. <i>Cowasji Brothers &amp; Co.,</i>	
BOMBAY.	

Dear Sirs,

I/We hereby authorise you to buy or instruct your Agents to buy for my/our account and risk the whole or any part of the following goods on the terms and conditions as named below and we agree to pay you a buying commission of *three* per cent. for your service.

I/We hereby agree to take delivery of the goods on arrival direct from the Steamer and to pay all duties and charges incidental thereon and authorise you or your Agents to draw in sterling upon me/us for the total amount of the Invoice in a Bill or Bills of Exchange at *London.*

If the bill or bills be drawn in sterling I/We agree to pay interest on the amount thereof at *six* per cent. from the date of the relative Invoice to the estimated date of arrival of remittance in London and further bind myself/ourselves to accept such bill or bills on presentation without any pretext, excuse or objection *whatever* and pay the same at maturity. No interest is to be allowed to me/us on part-payment of such bill or bills. Should I/We fail to accept or to pay at maturity such bill or bills I/We hereby authorise you as well as the holders of the bills to dispose of the documents or goods either by Private Sale or Public Auction on my/our account and risk, and I/We hereby bind myself/ourselves to make good any loss arising from

such sale and all Sale Expenses and in addition a commission of 5 per cent. for yourselves on the gross sale price waiving all claims to any advantage thereon and I/We agree to accept your Account Sales as correct and consent to the same being used by you or your Agents in any Court or Courts against me/us without further proof.

Provided always that I/We hereby agree that in spite of anything that may be written on this Contract or elsewhere to the contrary, you have the absolute right to refuse to give me/us possession of the Shipping Documents relating to this order or the goods until I/We have paid for the same as well as for all outstandings.

Should the goods for any reason be shipped in more than one shipment or for any reason a part or parts thereof be cancelled or left out I/We shall make no objection to take them just as they may be shipped.

In case of any dispute, you or your Agents are to have the option of (a) cancelling this order, or of (b) submitting the matter in dispute to two Merchants or their Assistants or the Referee appointed by them or of (c) submitting the matter to the Bombay Chamber of Commerce or the Indian Merchants' Chamber for arbitration under such rules as may at the time be in force, and I/We agree that the decision so arrived at shall be final and binding upon me/us.

Any claims or disputes whatsoever with respect to this order with regard to damage, shipment, deviation from samples, inferiority of quality or any other objections whatsoever are to be made in writing stating full particulars of complaint and the necessary arbitration fees deposited by me/us with you within 10 days from arrival

of the vessel, after which time all responsibility is to be on my/our account and no claim will be made by me/us after the aforesaid period of 10 days and if I/We make it, it shall not be valid.

When goods are ordered from specified Manufacturers or Manufacturers' Agents I/We agree to take all risks connected with outturn both as to quality, delivery and in every other respect.

Any deviation from time limit not exceeding 15 days is not to be considered a breach of Contract. All goods which have been delivered up to time at Port of Shipment, shall be accepted as actually shipped within the limit of time stipulated and whatever your supplier writes in respect to this point is to be accepted as conclusive.

In the event of fire, or strikes among workmen, or of any *vis major*, or of the failure of your supplier to deliver through Bankruptcy or any other reason, you or your Agents are to have the option of cancelling this order, and in no case shall any action be taken against you or your Agents for loss of profit or otherwise owing to late shipment, non-shipment or non-arrival of the goods.

All risk of damage to oilman stores or any other goods of a perishable nature are to be borne by mc/us.

Goods to be insured F. P. A. unless otherwise stated. I/We bear any loss which may arise in consequence of goods insured F. P. A. arriving late, water damaged &c. Any war risk premium which may be incurred, to be in all cases payable by me/us.

You or your Agents are not responsible for any leakage or breakage of any sort.

Contents and terms of this contract fully read out and explained by me.

*Sd. Sorabji Hirji,*

*Salesman.*

*50 Pieces of Superior Linen Shirt-  
ing at 8½ d. F. O. B. "A" quality  
Each piece to contain 120 yds. Ship-  
ment before the end of next month  
D. P. Draft at three months' sight.*

*(Sd.) Jaferji Suleman & Co.*

### **The Documentary Bill.**

The above form duly filled in and signed is presented to the manager who gets the same properly filed and forwards a copy to the foreign agent in the country where the articles are manufactured. The foreign agent makes the purchase and looks to its packing and shipment in due course. The manufacturer's invoice, in case the manufacturer is disclosed, or the agent's own invoice is then prepared including charges by way of freight, insurance, packing and commission. A Bill of Exchange is then drawn out on the dealer for the full invoice amount as per instructions from the indentors, to which the shipping documents *viz.*, the bills of lading, the insurance policy and the invoice are attached. This bill is then known as the documentary bill. The usual practice is to draw at 30 or 60 days' sight at the current bank rate of interest. This complete documentary bill is then handed by the foreign agent to his banker having a branch office or agency in the indenting country, against which the banker makes an immediate advance to the foreign agent, his remuneration being the interest which is to accrue and the profits on the Exchange when the amount is remitted

from the other side. The draft of the documentary bill takes the following form :—



LONDON, 15<sup>th</sup> August 1915.

EXCHANGE FOR £ 222-15-0.

*Thirty days after sight of this First of Exchange (Second and Third of the same tenor and date being unpaid ) pay to the order of Messrs. Cox & Co., the sum of Two hundred and twenty-two pounds and fifteen shillings sterling with interest at six per cent per annum added thereto from date hereof to approximate due date of arrival of the remittance in London. Payable at the current drawing rate for sight drafts of the above Bank on London. Value received.*

To

*Messrs. Jaferji Suleman & Co.,*

In Case of Need apply to :—

*Messrs. Cawasji Bros., Co.,(Sd.) Jaferji Suleman & Co.*

*Bombay.*

The indent agents receive a direct intimation as to the shipment from the foreign agent which they in their turn communicate to the dealer concerned in a form similar to the one appended here. These forms are generally printed with space for the details left blank to be filled in on each occasion.

From—COWASJI BROTHERS & Co.,

BOMBAY.

BOMBAY, 20<sup>th</sup> August 1915.

To

MESSRS. *Jaferji Suleman & Co.*

DEAR SIRs,

We have the pleasure to inform you that our Agents in London have reported by the <sup>Mail</sup> Telegram of 16<sup>th</sup> instant con-

cerning your esteemed order as follows, which we communicate to you without engagement of any kind:—

Indent No.	Article.	Remarks.
1185	50 Pieces of Superior Linen Shirting.	Shipped per s. s. "Rajput."

N. B.—All telegraphic reports are  
subject to further confirmation  
by receipt of mail letter. }

We are, Dear Sirs,  
Yours faithfully,

(Sd.) Cowasji Bros. & Co.

When the documentary draft is received by the local bank it presents the same to the dealer for acceptance and if the same is a D/A draft *i. e.*, documents against acceptance, the bank hands over the attached shipping documents to the dealer on such acceptance and the accepted bill is retained by the banker till the due date of payment. If on the other hand the bill is drawn as a D/P draft *i. e.*, documents against payment, the documents are not handed over on acceptance as in the former case, but are retained till the due date of payment and on payment either on the due date, or even before that, the discharged bill is handed to the payee duly cancelled. The foreign agent while drawing a bill takes his instructions from the indent agent as to whether the same has to be made a D/A or D/P bill. If on the other hand the dealer fails to accept the bill, or accepts the same and fails to meet it on the due date, the banker presents the same to the indent agent who is generally named on the bill as a "Case in Need."

This "Case in Need" then accepts the same for the "honour of the drawer" and attempts to settle with the dealer any dispute or claim he may have set up. If he succeeds, the bill is paid on maturity by the dealer, if not, the indent agent pays the same and proceeds with his remedies at law against the dealer. Where disputes arise as to damage through indifferent packing &c., the same are settled through the medium of surveyors appointed by mutual arrangement between the indent agent and the dealer as per terms of the indent. It may be added that these foreign bills are drawn in sets of two or three, each bill of the set being known as a "via," on the settlement of any one of which the others stand discharged.

It may happen, as we have already noticed, that the dealer when quoted a price by the salesman may wish to give a counter offer on the basis of a price which suits him, which is taken down, subject to approval and acceptance by the foreign agent, on the same Indent form. The foreign agent on receipt of the same may either accept or reject it or send a counter offer himself. This might ultimately result in the business being put through at some price suitable to both the parties.

### **Packing and Freight.**

The indent agent should keep himself informed about the various rates with regard to freight and shipment by different routes, to be able to guide the dealer as to the most advantageous route to be taken by his ship, considering the location and conditions of transit prevailing in the country of origin. For this purpose the various denominations as to packing ought to be carefully studied with a view to secure economy in the total rate of freight



charged. With regard to packing, he should take care to instruct the foreign agent as to the most suitable form of packing from the point of view of the local market, of course never losing sight of the actual nature of the article which is to be packed. In this connection his past experience with the class of goods imported will be the best guide. In case the goods ordered are of a type which are likely to be affected by weather or sea water, they may be ordered to be packed in tin-lined cases. If freight is payable on the cubic feet basis, all possible care should be taken to see that the goods are packed in boxes of as small a size as possible, as all unnecessary space taken up by a larger box has to be paid for by way of additional freight.

## CHAPTER VI.

### Company Work and Practice.

#### The Early History.

Joint Stock Companies originated in England from the early idea of raising loans for financing the Government and securing in return some monopoly or special privilege for themselves. The Original East India Company was established in 1600 A. D. by the grant of a Charter by Queen Elizabeth. Its business was made up of financing the Government with the carrying on of its own trade. The Hudson Bay Company was also founded in 1670 A. D. under a Royal Charter. The Bank of England was established in 1694 A. D. under a Royal Charter to finance the Government of William III, and the whole of its capital of £ 1,200,000, was lent to the State at 8 % per annum, plus £ 4,000 a year for the expenses of management. In return the Bank secured the

right to issue notes to the extent of £ 1,200,000. All these old companies considered some sort of a monopoly as absolutely essential to their existence and well being. Even Adam Smith thought that with the exception of a certain class of enterprises such as banking, canals, insurance &c., monopoly was essential to the very existence and success of a Joint Stock enterprise. In his opinion a Joint Stock Company could not long carry on any branch of foreign trade without a monopoly. "To buy in one market, in order to sell with profit in another, when there are many competitors in both ; to watch over, not only the occasional variations in the demand, but the much greater and more frequent variations in the competition, or in the supply which that demand is likely to get from the public, and to suit with dexterity and judgment both the quantity and quality of each assortment of goods to all these circumstances, is a species of warfare of which the operations are continually changing, and which can scarcely ever be conducted successfully, without such an unremitting exertion of vigilance and attention, as cannot long be expected from the directors of a Joint Stock Company." This theory has long been disproved to a large extent by subsequent experience, though some of the defects inherent in this type of combination still exist and can only be remedied by providing for an efficient and experienced management. Besides, Joint Stock Companies in old days could only be incorporated in England by the grant of a Royal Charter, or an Act of Parliament, and in some cases it was also enacted that the liabilities of the members was to be limited to the extent of their stake in the undertaking. An Act was however passed in 1844 which made possible the formation of Joint Stock Companies on the simpler basis

known to us at present under our modern Acts, and in 1855 one more Act made the incorporation of trading companies under the limited liability principle possible. This principle was however not extended to banking associations, as it was thought undesirable in those days to do so, because banks stood in a peculiar position owing to their indebtedness to the public in large amounts. The severe banking crisis which followed in 1857 however modified that view. In this crisis, several banks—particularly the Western Bank of Scotland—failed with heavy liabilities, which involved the ruin of many wealthy shareholders, with the result that persons of wealth, influence and position declined to hold shares in a banking company. An Act was therefore passed in 1858, extending the privilege of limited liability to banking companies, with the exception that in the case of notes issued by such banks the liability of its shareholders was to remain unlimited to the extent of such an issue. Many large banks however hesitated to take advantage of this provision fearing lest their credit with the public may suffer, but the failure of the City of Glasgow Bank in 1878 forced them to convert themselves into limited liability companies. A further Act was passed in 1879, providing for the creation of a “reserved liability” by an increase in the nominal amount of the shares of a company with a condition that the whole or a portion of such an increase was to be called up only in the event of the liquidation of the company. Thus, though the shareholders’ liability was limited to the nominal amount of the shares they had subscribed for, a certain uncalled amount on each of the shares afforded a sort of reserve, or security, to the creditors in case the venture proved a failure and had to be liquidated. Since then a series of

Acts amending and codifying the Company Law of England were passed, till finally in 1908, the Companies Consolidation Act was passed. In India, the Indian Companies Act of 1913, brings our law with regard to Joint Stock Companies almost on par with the English Act and in some particulars, particularly with regard to the qualification of the Auditors, it is a step in advance of the English Act.

### **The equity of the limitation of liability.**

This provision of the Company Law, which permits a limitation of the liability to be arranged in case of the members of a Joint Stock Company, can be defended both on the ground of equity and organization. In the case of a private partnership, every partner generally takes an active and working part in the management of the business and is therefore in a position to exercise a close supervision on the affairs of the firm. In his case therefore an unlimited liability should give no reason for lament or hardship. In a Joint Stock Company on the other hand an average shareholder is afforded very little, if at all, any opportunity of exercising such a control. We have already noticed in a previous chapter how limited are the opportunities of a shareholder and how illusory his powers of control, even within the narrow sphere open to him under the Company Law. It is therefore fair that his liability should be limited in proportion to his powers and opportunities of exercising control. The development of joint stock enterprise to anything like the proportions we are witnessing around us to-day, would have certainly proved impossible in the absence of this most welcome provision,

## The Promotion.

### A General Survey.

A Joint Stock Company is promoted either with a view to take over and expand a going concern which has so far been worked under the partnership combination, or to float an entirely new enterprise. In the first case the proprietors of the old concern take an active part in the promotion, whereas in the second, a set of men, either professional promoters of the type we have dealt with in a previous chapter or a firm of secretaries and agents as already discussed take up the work. In case of a new enterprise, say the working of the patent for a new invention, or of a mine which has been discovered and prospected upon, the inventor or the prospector has also to be paid. This payment usually takes the form of a part consideration in cash and a part in fully or partly paid shares of the new company. If a going business is to be converted, the old proprietors are to be paid a purchase price, which includes the value of the tangible assets taken over, minus the liabilities if any transferred, plus the value of the goodwill of the concern bought. Here also the usual arrangement is to pay a part of the purchase price in cash plus shares fully or partly paid. The promoters arrange all these preliminaries, pay the preliminary expenses, select the directors, draft the prospectus and engage the services of brokers and auditors of the company. They select for it a name. They usually buy up the property or patent rights that are to be acquired by the company and then agree to sell them to a person appointed to act as a trustee on behalf of the company, reserving a margin of profit for their troubles. In this case, the provision of law as to the disclosure of dates and parties to every material contract

in the prospectus of a company which makes an offer to the public to take up its shares, as discussed later in this chapter, affords some protection to the intending purchaser of shares who can, if he chooses, go and inspect the agreements before finally deciding upon the purchase. The remuneration to be paid to the promoters has also to be disclosed in all its details in the prospectus. One of the greatest drawbacks attributed to the Joint Stock Company combination is the heavy expenditure it entails in case of a certain class of enterprise in the course of their promotion. Let us take the typical case of a company formed to work a coal mine in India. An enterprising prospector discovers a piece of land, where on experiments, he finds that a promising coal mine can be worked. He arranges to purchase this right from the owner of the land, who is generally in the dark as to the extent of the value placed on the land by the prospector. An agreement for purchase is entered into at the market price of the land, at say the small figure of Rs. 10,000. Our friend the prospector now approaches a firm of promoters who are already working a number of Joint Stock Companies as Secretaries and Agents and lays before them his scheme. The promoters ascertain how far the expectation of the prospector is to be relied upon by a series of experiments of their own and then arrange for the floating of a Joint Stock Company to work the mine. The land is now agreed to be purchased at Rs. 1,00,000, or perhaps more, the purchase price being payable say, half in cash and the other half in shares. The Company is incorporated with a capital of, say, Rs. 5,00,000, of which Rs. 4,00,000, are offered to the public for purchase, whereas, the other shares to the value of Rs. 50,000, are to be given as fully paid to the promoters, besides an equivalent paid to the prospector. In order to

ensure the financial success of the enterprise, an underwriting agreement is entered into with some financiers who underwrite the whole capital, say at a commission of 6 % plus 1 % brokerage, which takes up Rs. 28,000. Thus the Company starts with an actual capital of Rs. 3,22,000, if the Rs. 50,000 paid in cash to the prospector are also deducted, whereas it has to earn a dividend on Rs. 5,00,000. In case the preliminary expenses, as well as various other expenditures connected with the promotion and during the early working stage are considered, the actual capital collected in cash shrinks to a smaller figure. We had recently a case of an old mill in Bombay which was purchased by a syndicate for a certain price from the liquidator, to be immediately sold to a public company at a profit of lacs of rupees. The transaction no doubt excited comment at the time but the public had so great a confidence in the promoters that in spite of this apparently costly deal by the new company, all its shares were sold at a premium. Mr. Withers calls this watered capital as so much "water-logging dead weight." Of course if the enterprise purchased or acquired is such as would pay a handsome return, a large amount paid out towards the profits of the promoters and vendors should not deter investors. The watered capital in the literal meaning of the term, constitutes that part of capital which has been paid away in a bad bargain, that is where there is no likelihood of any adequate return by way of dividends in the project purchased.

In case of a going concern proposed to be bought over from its old proprietors, the amount which is estimated in the purchase price towards the goodwill, forms frequently a heavy charge on the capital of the new company. This figure of goodwill is not always based on a business-

like estimate, as the old proprietors take a very significant part in its calculation, particularly where they are the principal promoters. Here the most important items of enquiry are whether these old proprietors retain a substantial interest in the new concern and whether they are to take the same active and managing part in the direction, organization and management, so as to insure the working of the business with the uniform success of the past years. In considering the special advantages of a partnership combination we noticed how far a good combination of interested partners, who devote their whole hearted attention to the business of the firm, contribute towards its success, and therefore, unless this level of efficiency is maintained, a successful business placed in new or less zealous hands, may prove quite the reverse under the new garb of a joint stock company. The goodwill therefore of such a concern placed in new hands may prove quite worthless to the detriment of the investor who had to pay a heavy purchase price. Even where the co-operation of the old proprietors is secured, unless they are made to retain a substantial interest in the enterprise, their old level of efficiency of work and labour on behalf of the new enterprise cannot be ensured.

## **Private Companies.**

### **Their Peculiarities.**

Joint Stock Companies may be incorporated either as "Private" or "Public" Companies with or without limited liability. Private companies should consist of not less than two and not more than fifty members, whereas, public companies must possess at least seven members, though no limit as to the maximum number of members is



laid down. The privileges enjoyed by these private companies are made up of the following exemptions :—

(1) They need not file a statement in lieu of prospectus.

(2) They can commence business and exercise borrowing powers as soon as they are incorporated and need not comply with the other requirements enforced from public companies before doing so.

(3) They are not to forward a statement in the form of a balance sheet to the Registrar.

(4) No reports are required to be filed by them as in the case of public companies.

(5) Their balance sheets need not be audited and certified by auditors.

(6) The requirements as to “minimum subscription” (as dealt with later in this chapter) do not apply to them.

(7) They are free from the requirements in regard to the appointment of directors by the articles as well as their consent to act as such and to take up and pay for the qualification shares, if any, as applying to public companies.

(8) They need not disclose their financial position to their rivals, as they are not compelled by law to file their annual balance sheets with the Registrar. All that they are required to do is to disclose the amount of their paid up capital and their indebtedness secured by mortgages and charges.

### **Their advantages.**

The private company arrangement is full of promise, bringing as it does within the reach of partnership the blessings of limitation of liability, at the same time affording

all possible facility for the raising of a fairly large capital, with an efficient and select combination of persons up to the limit of fifty. Here, though the partners retain a substantial interest in the fortunes of the enterprise, they are relieved from the anxiety of being liable to the creditors to their last penny in case of unforeseen losses. The circumstance which makes these parties sure of their total stake in the company in case of failure, is likely to induce a large number of men of means to launch in risky enterprises and new experiments with courage. Besides, in case of a private family business, the owner of the business may safely retire, or take it easy, by converting his firm into a private limited company with a fixed capital outlay, leaving his sons and trusted old servants to look after the same. He knows his actual stake in the enterprise and feels secure as to the balance of his saving. Here he takes over the bulk of the shares as fully paid in consideration of the purchase price, distributing the rest among his sons and assistants. Thus the old business is run on the same old lines, by men experienced and interested, under the fostering care and general supervision of its parent. This form of incorporation has proved so popular in England that nearly six thousand companies are being annually registered since their formal recognition by the English Act of 1907. Our Indian Act of 1913 has fully adapted this recognition and an increasing number of companies are being incorporated under this arrangement as our businessmen are gradually realising its possibilities. This form of incorporation also appeals to those interested in a number of private businesses, as the possibility of the failure of one business involving the ruin of others through the unlimited partnership liability is absent. Again, a private firm, cannot always claim a monopoly as

to its name, whereas, an incorporation in the form of a private company secures that monopoly, without sacrificing the private and personal nature of the enterprise. A continuity is also secured by converting a firm into a private company, as the death or retirement of one of its members does not dissolve the concern as in the case of a partnership. In the case of a business comprising of branch offices in distant parts of the country or the Empire, the private company arrangement affords a medium for giving the local managers or partners, a greater personal interest which can be done by converting each firm into a private company with limited liability and giving a greater stake in its capital to the member on the spot, at the same time keeping the most prominent members of the joint formation common to all the companies in the garb of directors.

Though there is a limit as to the number of members that a private company should be possessed of, there is no limit laid down by law as to the amount of its capital. In England private companies are in existence with capital as low as £ 100 and as high as £ 1,000,000. It is no doubt difficult to secure a huge capital on the scale of some of the public companies in existence for this class of companies, but the purpose which this class of combination is expected to serve and does serve is to afford a medium for a distinct form of combination of individuals on the joint stock plus limited liability principle, who do not wish to take the outside investor within their fold. In short, both the *private* and the *public* methods of joint stock combinations command their separate spheres of activity within which they render an excellent service to industries and commerce. It may be added that if at any stage of the career of a private company it is thought

desirable to convert it into a public company, with a view to be able to secure a larger capital by the issue of an invitation to the public, the same can be done under S. 154 of the Indian Companies Act of 1913. All that need be done here is to get a special resolution passed, a copy of which resolution is to be filed with the Registrar of Joint Stock Companies, together with a statement in lieu of prospectus (as in the case of a public company as dealt with later in this chapter), together with the other documents necessary in the case of a public company. The articles of association may also be altered by a special resolution deleting the clause which restricts the memberships to fifty and modifying the restrictions on the transfer of shares.

### **Public Companies.**

#### **Their Incorporation.**

In the case of public companies, the incorporation is secured by filing with the Registrar the following:—

1. The Memorandum of Association.
2. The Articles of Association, if there be any. In the absence of special articles, Table A attached to the Companies Act 1913 will come in force as the Company's Articles.
3. Notice of the situation of the Registered Office of the Company.
4. Consent of the directors in writing to act as such directors: and in the case of a company limited by guarantee and not having a share capital, every director shall have either signed the Memorandum for a number of shares not less than his qualification shares (if any), or signed and filed with the Registrar a contract in writing to take from the Company and pay for his qualification shares (if any).

5. A list of persons who have consented to be directors.

6. A declaration by an Advocate, Attorney or Pleader entitled to appear before a High Court who is engaged in the formation of a company, or by a person named in the articles as a director, manager or secretary of the company, of compliance with all or any of the said requirements.

After the grant of this certificate of incorporation, which in law makes the company a body corporate by the name mentioned in the memorandum, the company proceeds to ask for the subscription of its shares from the public. It shall not, however, commence business or exercise its borrowing powers, unless it obtains a further certificate from the Registrar declaring that the company is entitled to commence business. This certificate will be granted on the following further requirements being fulfilled:—

(1) Shares held subject to the payment of the whole amount thereof in cash have been allotted to an amount not less than the minimum subscription.

(2) Every director has paid for on each of the shares taken or contracted to be taken by him, and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares offered for public subscription, or in the case of a Company which does not issue a prospectus inviting the public to subscribe for its shares, on the shares payable in cash.

(3) There has been filed with the Registrar a duly verified declaration, by the secretary or one of the directors in the prescribed form, that the aforesaid conditions have been complied with, and

(4) In the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, there has been filed with the Registrar a statement in lieu of prospectus.

### **The Memorandum of Association.**

The Memorandum of Association must state,

(1) The name of the Company (with the word LIMITED) if it is going to be a Limited Company;

(2) The place of business of the Company;

(3) The objects for which the Company is formed—a clause which requires to be drafted with great care and ingenuity. This is because of all the documents one which is the most difficult to be altered at Law, is the Memorandum of Association of a Company and of all the clauses of the Memorandum of Association, the clause which is the most difficult and inconvenient to be altered, is this “Objects” Clause. This clause should include all the possible branches of business in which the Company is likely to be engaged and these should be stated in all their details clearly and carefully, otherwise the Directors might find that they are unable to act on some important question because they have not the necessary power. In other words the action contemplated might be found to be *ultra vires* the Company;

(4) Whether the liability of the members is to be “limited”;

(5) The amount of Capital of the Company, with its proposed division if any into shares, classifying these shares under the headings of (a) Cumulative Preference, (b) Preference, (c) Ordinary and (d) Deferred, and stating the amount which is to form the value of each of these shares. The Memorandum of Association has to be signed by at least

seven members who are generally the Directors of the Company and each of these members has to state before his signature the number of shares he agrees to take up.

The following is the form in which a Memorandum appears in actual practice :—

THE INDIAN COMPANIES ACT 1913.

COMPANY LIMITED BY SHARES.

MEMORANDUM OF ASSOCIATION

OF THE

BOMBAY SPINNING & WEAVING COMPANY  
LIMITED.

1. The name of the Company is the Bombay Spinning & Weaving Company, Limited.

2. The registered Office of the Company will be situated in Bombay.

3. The objects for which the Company is established are :—

- (a) To do business as spinners of yarn and weavers of cloth and for that purpose to purchase and acquire land and other properties and erect factory or factories, mills, &c., containing cisterns, pipes, engines, tanks, machinery and appliances as may be required for business or expedient for the purposes of the Company and to purchase, take on lease or otherwise acquire and hold, use, occupy and otherwise deal with any now existing mills and factories of a similar nature.

- (b) To acquire by purchase or lease or otherwise any lands, hereditaments, rights, privileges, easements, user of water, liberties or licenses which may be deemed by the Company requisite or expedient for the purposes of the Company.
- (c) To acquire rights of Trade Marks by purchase or otherwise relating to any business of the Company and to turn same to account by using same or by granting license or otherwise.
- (d) To raise money by issue of debentures, obligations, bonds, or otherwise in such manner as the Company may think fit for the purposes of carrying on the business of the Company,
- (e) Generally to sell, improve, manage, develop, lease, mortgage, dispose of, turn to account or otherwise deal with all or any of the property of the Company.
- (f) To do all such other things as are incidental or conducive to the attainments of the above objects.

4. The Capital of the Company is to be Rs. 20,00,000 divided into 2,000 shares of Rs. 1,000 each.

5. The liability of the Members is limited to the nominal value of the shares they hold.

We, the several persons whose names and addresses are subscribed are desirous of being formed into a Company in pursuance of this Memorandum of Association and we respectively agree to take the number of Shares in the Capital of the Company set opposite our respective names.



Names, Addresses, and Descriptions of Subscribers.	Number of ordinary shares taken by each Subscriber
Dorab Rustamji Cama, 53, Malabar Hill, Baronet.	One hundred
Solomon Isaac, 15, Reclamation, Knight ....	Fifty
William Jordon, Apollo Bunder, J. P. ... ..	Ten
Thakersey Gordhandas Cutchi, Mandvi Bazaar, Rao Bahadur ... ..	Ten
Ebrahim Ludha, Cumballa Hill, J. P. ... ..	Ten
Janardhan Fadke, Girgaum Road, Doctor of Medicine ... ..	Ten
Chunilal Desai, Walkeshwar Road, Vakil, High Court ... ..	Ten

*Dated the 21st day of August 1915.*

Witness to the above Signatures,

*JAMSHEDJI PESTONJI SOLICITOR,*

OF MESSRS. JAMSHEDJI, HIRALAL & Co.

BOMBAY.

### **The Articles of Association.**

The Memorandum of Association is generally accompanied by a document called the "Articles of Association." These Articles of Association are the bye-laws of the Company governing its management and embodying the powers of the Directors and Officers of the Company as well as the powers of the shareholders as to voting &c. The Articles of Association are not compulsory and a Company may be formed without possessing its special Articles of Association. In such a case a schedule which is attached to the Companies Act called the "Table A," becomes the Articles of Association of such a Company. When however

a Company possesses its specially framed Articles of Association but the Articles are silent on some of the points of management &c., the clauses relating to these points in the "Table A" come into operation. There are instances where some Companies do not possess their own Articles of Association but they draft out a few special rules and state that "The Table A shall be the Articles of Association of this Company excepting so far as they are modified by the following rules." Nowadays however Company management and work has become so complicated that it is quite difficult, if not impossible, for a Company of any magnitude and importance to appropriately adopt the "Table A" as its Articles of Association and therefore the reader may take it that ordinarily every Company of importance gets its own "Articles of Association" specially framed before Incorporation.

After these two documents, viz. the "Memorandum of Association" and the "Articles of Association" are filed with the Registrar of Joint Stock Companies and the necessary fees are paid, the Registrar issues a "Certificate of Incorporation" declaring the Company to be duly Incorporated under the Indian Companies Act.

## **The Prospectus.**

### **Its Contents.**

Our new Act following the English Company Law lays down conditions and stipulations as to the contents of the Prospectus of a Company which is to be issued to the public with a view to invite applications for shares which ought to be carefully mastered. The Act lays down that the Prospectus of a Company which invites the Public to buy its shares ought to comply with the following requirements and should contain the following information:—

- (1) that the Prospectus should be dated ;
- (2) that it should be signed by every person named therein as Director or proposed Director ;
- (3) it should state the contents of the "Memorandum of Association" with the description and addresses of the signatories to the Memorandum ;
- (4) that the number of shares if any which are to form the "qualification shares" of the Directors of the Company should be mentioned ;
- (5) that the "minimum subscription" on which the Directors may proceed to allotment must be stated. With regard to this clause it may be mentioned that the object of this requirement is to see that the public is informed as to the amount of capital actually applied for on which the Directors intend to allot shares. For in former times the Promoters used to recklessly attempt to promote all sorts of Companies, advertise for Share Applications, and though they found that a sufficient number of applications was not available to make the working of the Company possible, they went on allotting the shares, and then, the Company was taken into liquidation, where, the shareholders were called upon to pay up the whole amount of their shares. This money was then utilised in paying the expenditure incurred in the promotion of the Company. These practices created great hardship on those who applied for shares. Under the existing regulations the public is in a position to judge from the amount of the "minimum subscription" whether or not it is safer for them to apply for shares immediately or whether in view of the "minimum subscription" amount being very small they should wait and see if the promotion turns out successful or otherwise.

(6) that all the material or important contracts which the promoters may have made with different people and which the Company is to take over with a view to purchase property &c., are to be stated clearly in the Prospectus, stating the price as well as other details as to purchase, so that the public may be in a position to judge whether the said bargain is fair and proper. These contracts are also required by law to be open to the inspection of the public;

(7) that the Prospectus should also state if any underwriting commission is to be paid or is agreed to be paid to any one. The "Underwriting Commission" is a commission paid to financiers who enter into a contract guaranteeing that the whole Capital of the Company as offered to the public would be fully subscribed and that in case any balance or even the whole amount offered remains unsubscribed for by the public, the said is to be taken over and paid for by the Underwriters. In consideration of this undertaking a certain commission is agreed to be paid to them, which is calculated on the whole capital of the Company whether taken up by the public or not, and which is put down to the account of the Underwriters according to this agreement. This commission is called Underwriting Commission;

(8) if any of the Directors has any interest in the formation or in any of the properties to be acquired by the Company, the Prospectus should clearly state the nature of such interest, so that the investing public may know of it before applying for the shares.

#### **How to scan the prospectus.**

It will thus be noticed that, as far as possible, the Companies Act has provided proper safeguards in order that the investing public be not misguided or misled, by insisting on details being stated in the Prospectus, which are

likely to affect their judgment while deciding whether or not they should apply for shares in a proposed Company. If in actual practice these safeguards prove to be inoperative, the fault lies with the investors who generally allow themselves to be carried away either by sentiment or by the speculative fever conveniently let loose by interested promoters and their friends. Even among the most sober minded investors, the proportion of those who base their conclusions on a careful study both of the prospectus and the articles of association of the company they invest in, is very small indeed. The primary object of the Prospectus is, of course, to induce the public to subscribe for the shares and debentures of the Company and thereby secure the necessary money which is to make up the capital of the Company. The greatest care, therefore, should be taken here to state all the points which a cautious investor is likely to be curious about and that too, with the utmost veracity. The investing public of almost all countries where Joint Stock enterprise has flourished for some length of time, have had their experience of both the good and the doubtful type of enterprises which has made them rather unduly sceptical. Even so prominent a writer and thinker as Mr. Hartley Withers has thought it fit to write about prospectuses in his book on "Stocks and Shares" as follows :—

“ All prospectuses should be scanned in a spirit of jaundiced criticism and with the most pessimistic readiness to believe that they are specially alluring traps laid by some designing financier to relieve the reader of some of his money. No allowances should be made, and the benefit of the doubt should never be given to the prospectus. In fact, a large number of them are quite reasonable propositions put forward by quite honest men, but when they

are of this kind they will, or ought to stand the most sceptical scrutiny, and when they are not, it is a service to the community at large to put them as quickly as possible in the waste paper basket."

### **Care in its preparation.**

The prospectus should therefore disclose all the material points in order to disarm all possible chances of suspicion which are likely to discourage an investor. In case where a going concern is to be taken over by the new Company, the actual working results in form of net profits for a number of years immediately preceding the period ought to be stated in the form of an abstract from the report of some prominent firm of Accountants who are likely to command public confidence. The form in which these profits are disclosed should be such as to make it clear that the business sought to be purchased was of a progressive character. In the case of assets taken over they ought to be valued by recognised experts. The name of the auditors should also be stated wherever possible and in the selection of these, care should be taken to pick out qualified men of reputation and standing. Besides observing these precautions, all frankness ought to be displayed in carefully describing the business which the company is to carry on. A cautious investor will not blindly stake his capital in an enterprise without carefully weighing the possibilities of the business in contemplation and therefore all possible attention should be given to the work of supplying him with all possible material which is likely to help him to judge for himself after considering fully the point of view of the promoters. The promoters should also take care to see that as far as possible all the statements contained in the prospectus are

based on some expert's reports, abstracts from official documents, or on facts which they are able to substantiate if called upon. All the requirements of the Companies Act, 1913, as dealt with above, ought also to be strictly observed. Failing this, every director, promoter and every person engaged in the promotion and formation of the Company, with whose consent and knowledge the prospectus was issued, lays himself open to be sued for damages by an aggrieved share-holder who purchased, or agreed to purchase, the shares relying on any untrue or misleading statement in the prospectus.

Mr. Hartley Withers recommends the investor to pay particular attention to the name of the firm of brokers (if any) mentioned in the prospectus as an indicator of the company's prospects, as a good firm of brokers will not attach itself to a doubtful company, still less recommend its clients to invest in the same. He also recommends investors in general to consult their own brokers before deciding on the prospects of an undertaking in which they think of investing. This of course applies to brokers in England, particularly to those on the London Stock Exchange, where the members of the Exchange are divided into two watertight compartments known as "Jobbers" & "Brokers". The former class restricts itself to buying and selling in stocks, shares and securities, whereas the latter acts as a middleman between the Jobber and the investing public. In other words a Jobber cannot act as a Broker and *vice versa*. Under these circumstances a broker being a disinterested middleman, besides being an expert in the line, can no doubt be looked to with confidence for advice. In India however no such distinction is observed. Almost every broker on the Stock Ex-

change, whether in Bombay or elsewhere, is also a dealer in stocks, shares and securities, and therefore, one can never be certain about the extent of the disinterestedness of his advice. The most prominent of these brokers indulge in the underwriting of share capital, which they would naturally be anxious to unload at the first possible opportunity. However honest and straightforward their methods of business may be, this conflict of interest should alone be sufficient to deter a cautious investor from looking for guidance in this quarter. From a practical promoter's point of view however, the insertion of the name of a well known firm of brokers wherever possible, makes the prospectus more attractive, both here as well as in England.

The other attraction which has generally proved overpowering to an average investor, is the inclusion of a few titled names among the Board of Directors. We have already dealt with the weakness of this form of constitution from the combination and organization standpoint and therefore need not enlarge on that point here. It need only be added that according to the best authorities the glare of titled names on a Board is losing its magnetic effect on the average investor in England who has improved by experience, and no doubt the same transition seems well within sight in India.

### **Form of the Prospectus.**

The following form taken from a newspaper advertisement of one of the recently incorporated companies will give an idea as to how the Prospectuses are advertised :—



*The subscription list is now open and will close on the 27th February 1918 or earlier, as may be decided by the Directors.*

This Prospectus has been duly filed with the Registrar of Companies, Bombay.

THE GENERAL LAND AND INVESTMENT  
COMPANY,  
LIMITED.

*(Incorporated under the Indian Companies Act, 1913.)*

Capital Rs. 1,00,00,000.

Divided into 1,00,000 Shares of Rs. 100 each.

Issue of 1,00,000 Shares of Rs. 100 each.

PAYABLE AS FOLLOWS:—

Rs. 10/-on Application.

Rs. 15/-on Allotment.

And the balance in calls of not more than Rs. 25—

Payable at intervals of not less than six months.

No further call will be made payable in the year 1918.

The whole issue has been underwritten and the Director and their friends have applied for 60,000 Shares of the Nominal Value of Rs. 60,00,000, which will be allotted in Full.

DIRECTORS:

M. Able Esq., Merchant, Bombay,

*Chairman, Joint Managing Director.*

C. David Esq., Merchant, Bombay.

*(of Messrs. E. David. & Co.),*

*Joint Managing Director.*

The Hon'ble Sir Arthur George, Bart., Merchant, Bombay.

The Hon'ble Mr. Ranchordas Liladhar,

Merchant, Bombay.

Rustumji Framji Esq., Merchant, Bombay.

Abdul Rashid Esq., Merchant, Bombay.

**BANKERS:**

The Bank of Hindustan.

**AUDITORS:**

Messrs. Ledger & Penknife, Bombay.

**SOLICITORS:**

Messrs. Dinshaw & Co., Bombay.

**MANAGING AGENTS:**

George Higgins & Co., Bombay.

**REGISTERED OFFICE:**

51, Apollo Street, Fort, Bombay.

This Company has been formed primarily for the purpose of acquiring land in and about the Town and Island of Bombay and adjacent suburbs and for the erection thereon of suitable residential bungalows, houses and quarters for the various classes of the community; also for investment in landed and other property, loans upon mortgage and other securities and the purchase and sale of shares and stocks, etc., etc.

It is well known that the rapid growth and development of the City of Bombay has caused a state of congestion which renders the provision of further dwelling accommodation absolutely essential. The operations of the Improvement Trust have made available a number of highly desirable sites, and suitable areas are in view in other quarters, regarding which it is, for obvious reasons, inexpedient to publish particulars. It is felt by the

Directors that the present is a most favourable time for the operations of a Company, which must of necessity have a large capital.

Land in Bombay is not cheap and the cost of building has undoubtedly increased to such an extent that private individuals are now largely debarred from putting up the necessary additional buildings for want of capital. The Directors feel confident that there is not only ample scope but also an absolute necessity for a Company of this kind, with large resources and with sufficient staff and influence to ensure the successful conduct of operations on a large scale and on businesslike lines.

Amongst others, it is particularly proposed to cater for the requirements of the middle class population and also of the labouring classes. It will be apparent that the operations of a Company working on a large scale will inevitably be less costly than isolated efforts on the part of individuals here and there to build dwellings on individual and independent plans. Standardization is a very important matter nowadays on account of the great economy which can thereby be achieved, and the Directors are assured that the erection on essentially modern lines with modern comforts and conveniences of suitable dwellings for the population of Bombay will not only meet with a ready response from people at present inadequately housed, but also with considerable help and encouragement from employers of labour. A number of these who have been sounded on the subject express themselves on the housing question practically on the following lines:—

- (1) That the housing problem is a most pressing one and ought to be taken in hand by a large

body having the means and the facilities to do it thoroughly and efficiently;

- (2) That the individual erection of workmen's dwellings is a matter of great difficulty, because:—

(a) Employees do not care to live in houses under the immediate eye of their Employers, in the belief that it gives the Employers too great a hold over them;

(b) Employers cannot do it on a sufficiently large scale to make it a commercial proposition.

Some Employers have gone so far as to say that they would be willing to house their workmen without seeking to make it pay, but fear that the tendency of the poorer classes of this Country to board in with their relatives and friends would make it an unworkable scheme from the Employers' point of view.

All these difficulties, it is felt, can be met by the operations of the above Company. The Directors feel sure that they can rely upon the support of employers of labour provided the management of the housing accommodation does not fall upon the employers concerned, and they feel that properly undertaken and managed upon a sufficiently large scale, the proposition is one that will fulfil not only a long-felt want but one of pressing urgency and with every prospect of being a commercial success without charging anything in excess of the rents until recently accepted as reasonable for Bombay. For the middle class population, the provision of further housing accommodation is well known to be an urgent and pressing matter.

As an investment, Land and Building Companies have achieved a great measure of success and popularity in the United Kingdom, the Colonies and the Crown Settlements, such as Honkong and Shanghai, and it seems strange that nothing of the kind has hitherto been carried to a successful issue in Bombay where the need is so universally recognised. Such schemes as this provide a reasonable and safe investment, and worked upon sound lines, are likely to prove popular and remunerative.

This Company will also be in a position to support and assist the efforts of other concerns, Co-operative Societies, Public Companies and private owners whose efforts may assist in coping with the housing problem of Bombay.

#### Minimum Subscription;

The minimum subscription on which the Directors may proceed to allotment is 50,000 Shares.

#### Underwriting Commission;

The shares now offered for subscription have been underwritten for a commission at the rate of two per cent on the amount thereof, and such commission is payable by the Company.

#### Agreement.—

The following Agreement has been entered into:—

An Agreement dated the twenty-first day of February 1918 (being the Agreement referred to in Article 3 of the Articles of Association of the Company) made between the Company of the one part and George Higgins and Company, of the other part, whereby it is agreed that George Higgins and Company, as carrying on business in Bombay, and the successors in business

or assigns of George Higgins and Company, shall be the Managing Agents of the Company from the date of the registration of the Company for the term of thirty years and thereafter until they shall resign or shall be removed from their office by a Special Resolution of the Company, but with liberty to the Managing Agents to resign such appointment and to retire from the Managing Agency at any time by twelve calendar months' notice in writing to the Company, such notice to expire at the end of any financial year of the Company. The remuneration of the Managing Agents under this Agreement is fixed at ten per cent upon the annual net profits of the Company as therein defined and an office allowance of rupees one thousand and five hundred per month.

**Directors' Interests:—**

Two of the Directors, namely, Mr. George Higgins and Mr. R. Johnson as members of George Higgins and Company, Limited are interested in the remuneration to be paid under the foregoing Agreement.

Two of the Directors, namely Mr. M. Able and Mr. C. David will be appointed Joint Managing Directors of the Company on a joint remuneration of rupees five thousand per annum.

**Qualifications and Remuneration of Directors:—**

The following are the provisions of the Articles of Association of the Company as to the qualification and remuneration of Directors.

- 90.—The qualification of a Director of the Company (other than the Managing Directors, a Special Director or the Debenture Director) shall be the holding in his

own right of at least fifty shares in the Company of the nominal value of rupees five thousand. A first Director may act before acquiring his qualification, but shall in any case acquire the same within one month from his appointment; and unless he shall do so, he shall be deemed to have agreed to take the said shares from the Company and the same shall be forthwith allotted to him accordingly.

- 91.—The remuneration of a Director for his services shall be such amount as may be fixed by the Directors not exceeding rupees seventy-five for each meeting attended by him; and such reasonable additional remuneration as may be fixed by the Directors may be paid to any one or more of their number for services rendered by him or them in signing the share certificates in respect of the Company's original capital or any further or new issue thereof, or any Debentures issued by the Company; and the Directors shall be paid such further remuneration (if any) as the Company in General Meeting shall from time to time determine; and such remuneration and further remuneration shall be divided among the Directors in such proportion and manner as the Directors may from time to time determine, and in default of such determination within the year equally.

- 92.—The Directors may allow and pay to any Director who is not a *bona fide* resident of Bombay and who shall come to Bombay for the purpose of attending a meeting, such sum as the Directors may consider fair compensation or for travelling expenses, in addition to his fee for attending such meeting as above specified; and the Directors may from time to time fix the remuneration

to be paid to any member or members of their body constituting a Committee appointed by the Directors in terms of these Articles, and may pay the same.

93.—If any Director shall be called upon to go or reside out of Bombay on the Company's business, or otherwise perform extra services (which expression shall include work done by a Director as a member of any Committee formed by the Directors), the Board may arrange with such Director for such special remuneration for such services, either by a fixed sum or by a percentage of profits or otherwise as may be determined by the Board, and such remuneration may be either in addition to or in substitution for his remuneration above provided and the Directors shall be entitled to be repaid any travelling or other expenses incurred in connection with the business of the Company.

94.—The remuneration of a Managing Director shall from time to time be fixed by the Directors, and may be by way of salary, or commission, or participation in profits, or by any or all of these modes.

**Preliminary Expenses:—**

The preliminary expenses payable by the Company are estimated at Rs. 7,500.

Copies of the Memorandum and Articles of Association of the Company and of the above Agreement can be inspected at the office of the Managing Agents of the Company, at any time during business hours.

A copy of the Company's Memorandum of Association is attached to this Prospectus and forms part of it.



### Application for Shares:—

Application for shares should be made upon the form accompanying the Prospectus, AND FORWARDED DIRECT TO THE COMPANY'S BANKERS, THE BANK OF BOMBAY, THE BANK OF BENGAL, OR THE EASTERN BANK, LIMITED, BOMBAY, TOGETHER WITH A REMITTANCE OF THE AMOUNT OF THE APPLICATION MONEY.

*This issue of shares is subject to the condition that the Certificates of the shares will not be completed and ready for delivery until eight months after the allotment of the shares.*

*Where no allotment is made, the deposit will be returned in full, and where the number of shares allotted is less than the number applied for, the balance of the deposit will be applied towards the amount payable on allotment.*

*Failure to pay any future instalment on shares allotted when due, will render previous payments liable to forfeiture.*

*Prospectuses and forms of application can be obtained at the office of the Managing Agents of the Company.*

### Brokerage.—

Brokerage will be paid at the rate of one per cent in respect of applications bearing *bona fide* Brokers' or Bankers' stamps,

Dated Bombay the twenty-first day of February 1918.

**Form of Notice as to Situation.**

The notice in writing of the situation of the registered office of a company to which all communications and notices are to be addressed has to be filed with the Registrar (S. 72 (2) Companies Act 1913). It may be drawn out in the following form :—

The Indian Companies Act, 1913.

( SEC. 72. )

NOTICE

OF THE

Situation of the Registered Office

of

THE BOMBAY SPINNING & WEAVING COMPANY,  
LIMITED.

To

The Registrar of Joint Stock Companies.

Bombay.

The directors of the above named company hereby give you notice pursuant to Section 71 (1) of the Indian Companies Act, 1913, that the registered office of the company is situated at No. 10, Church Gate St., Bombay.

Signature. J. Fernandez,

Secretary.

Dated the 21st day of August 1915.

**Form of consent of directors.**

The consent of the directors to act as such as required by Sec. 84 (1) of the Indian Companies Act, 1913, will be in the following form :—

**The Indian Companies Act, 1913.**

**SEC. 84 (1)**

**Consent to act as Director.**

**OF**

**The Bombay Spinning & Weaving Company, Ltd.**

**To**

**The Registrar of Joint Stock Companies.**

We the undersigned hereby testify our consent to act as Directors of the Bombay Spinning and Weaving Company, Limited, pursuant to Section 84, Sub-section 1, of the Indian Companies Act, 1913.

Signatures.	Address.	Description.
Dorab R. Cama.	Malabar Hill.	Baronet.
Solomon Isaac.	Reclamation.	Knight.
William Jordan.	Apollo Bunder.	J. P.
Thakersey Gordhandas.	Mandvi Bazaar.	Merchant.
Ebrahim Ludha.	Cumballa Hill.	Merchant.
Janardhan Phadke.	Girgaum Road.	Physician.
Chunilal Desai.	Walkeshwar Road.	Vakil, High Court.

*Dated the 21st day of August 1915.*

**Form of the list of directors.**

The list of persons who have consented to be Directors as required to be filed with the Registrar per Sec. 84 (2) of the Indian Companies Act, 1913 will have to be made out as follows :—

**The Indian Companies Act, 1913.****SEC. 84 (2)**

List of the persons who have  
Consented to be Directors  
of

**THE BOMBAY SPINNING & WEAVING COMPANY,  
LIMITED.**

To

The Registrar of Joint Stock Companies,

I John Fernandez, the undersigned, hereby give you notice, pursuant to Sec. 84 (2) of the Indian Companies Act, 1913, that the following persons have consented to be Directors of the Bombay Spinning and Weaving Company, Limited.

Name.	Address.	Description.
Dorab R. Cama.	Malabar Hill.	Baronet.
Solomon Isaac.	Reclamation.	Knight.
William Jordan.	Apollo Bunder.	J. P.
Thakersey Gordhandas.	Mandvi Bazaar.	Merchant.
Ebrahim Ludha.	Cumballa Hill.	Merchant.
Janardhan Phadke.	Girgaum Road.	Physician.
Chunilal Desai.	Walkeshwar Road.	Vakil, High Court.

Signature, address and  
description of applicant  
for Registration.

}

John Fernandez,  
10, Church Gate Street,  
Bombay.

*Dated this 21st day of August 1915.*

**Form of the Declaration of Compliance.**

The declaration of compliance will have to be drawn out in the following forms :—

The Indian Companies Act, 1913.

**DECLARATION OF COMPLIANCE.**

with the

Requisitions of the Indian Companies Act, 1913.

made pursuant to Section 24, Sub-section 2, on behalf of a company proposed to be registered as

**THE BOMBAY SPINNING & WEAVING COMPANY  
LIMITED.**

I John Fernandez, of 10, Church Gate Street, Bombay, and 56, Frere Road, Bombay, do solemnly declare that I am the Secretary named in the Articles of Association of the Bombay Spinning and Weaving Company Limited, and that all the requirements of the Indian Companies Act 1913, in respect of matters precedent to registration of the said company and incidental thereto have been complied with. And I make this solemn Declaration conscientiously believing the same to be true.

Declared at my office, High Court,  
Bombay the 21st day of August 1915 } John Fernandez.  
one thousand nine hundred and  
fifteen.

Before me

P. Wadia,

Commissioner for oaths.

## **Application and Allotment of shares.**

The usual practice is to issue the prospectus to the public by advertising it in the first instance in the newspapers as well as furnishing copies of same to individuals applying for same. A date is fixed up to which the applications are to be open. Usually an arrangement is made with the company's bankers to receive applications and the public are requested to address these applications together with the application money to these bankers. The bankers collect the applications in their proper order, enter the application money in the proper order of dates in the pass book allotted to the company, and sign and hand over a receipt for the money to the applicant on the receipt form which is generally attached to the application forms ready to be filled in and detached. After the close of the last date of application the bankers forward the applications together with the pass book to the Company's office. If the minimum subscription as fixed by the memorandum or the articles and named in the prospectus, or where no such minimum is fixed, the whole amount of the share capital offered for subscription, has not been subscribed for within one hundred and twenty days after the issue of the prospectus, all money received from the applicants must be immediately repaid. Failing such repayment within further ten days the directors of the company make themselves jointly and severally liable to repay same with interest at the rate of seven per cent. per annum from the expiry of the one hundred and thirtieth day after the first issue of the prospectus (S. 101. Comp. Act 1913). All allotments made in defiance of this rule shall be voidable at the instance of the applicant within one month after the holding of the statutory meeting even though the company may be in course of liquidation by that time.

We shall however assume that the minimum subscription has been applied for. The applications are then to be considered by the directors at their Board Meeting to be held for that purpose. It may be added that the articles usually give the Directors the power to reject any application, or transfer, without giving any reason. Thus the Directors are in a position to select from the applicants members of their choice. There are also occasions when the number of applications for shares are in excess of the actual amount offered to the public. Here also a discretion is to be used as to whom the letters of allotment and to whom the letters of regret should be sent. The work of selection occupies a number of hours, if not days, in case of large Companies and therefore the most convenient course is to delegate this work to a small committee consisting of the chairman and a couple of directors whose recommendation or selection is formally approved at the next Board Meeting.

#### **Form of Application Letter.**

The form of application duly filled in will be as follows:—

**TO THE BOMBAY SPINNING & WEAVING COMPANY,  
LIMITED.**

**GENTLEMEN,**

Having paid to the Company's Bankers, the National Bank of India Limited, the sum of Rs. 100 being a deposit of Rs. 10 per share on ten shares in the abovenamed Company, I request you to allot me that number of shares upon the terms of the Company's Prospectus dated the 21st day of August 1915 and I hereby agree to accept the same or any smaller number that may be allotted to me and to pay

the balance of Rs. 990 per share as provided by the said Prospectus, and I authorise you to register me as the Holder of the said Shares.

NAME IN FULL, *Jivanji Pragji*

ADDRESS, 15, *Church Gate Street,*

DESCRIPTION, *Merchant,*

DATE, 21st *August* 1915,

SIGNATURE, *Jivanji Pragji.*

A receipt form is generally annexed to the application form as shown above and as soon as the applicant pays the money either at the Company's Office or at the Office of the Company's Bankers, the Bankers fill in that receipt form, sign it and return the same to the applicant. The receipt is in the following form :—

THE BOMBAY SPINNING & WEAVING COMPANY,  
LIMITED.

Banker's Receipt to be retained by the Applicant.

Received this 21st day of August 1915 of Mr. Jivanji Pragji the sum of Rs. 100 being a deposit of Rs. 10 per share upon 10 shares in the abovenamed Company.

For the National Bank of India, Limited.

M. McDonald  
Cashier

Stamp.



**Form of Allotment Letter.**

The Directors' Board Meeting would then be held at a fixed date to consider the applications received, at which meeting the directors would decide whether they are to allot all the shares applied for or in case where a larger number is applied for than available, the directors would decide as to whom the Letters of Allotment or the Letters of Regret should be sent. Assuming that the above applicant has been allotted the shares he applied for, the Letter of Allotment would be in the following form :—

---

**THE BOMBAY SPINNING & WEAVING COMPANY  
LIMITED.**

*Bombay 27th August 1915.*

To

**MR. JIVANJI PRAGJI,**

DEAR SIR,

I am directed to inform you that in accordance with your application, the Directors have allotted to you 10 shares of Rs. 1,000 each in the above Company.

The sum of Rs. 100 per share is payable thereon up to and on allotment making the sum of Rs. 1,000 in respect of which you have paid on application Rs. 100 leaving a balance of Rs. 900 payable by you, which I am instructed to request you to pay to the Bankers of the Company, the National Bank of India, Limited.

It will be necessary for you to produce this Letter of Allotment at the time of payment.

Yours truly,

**J. FERNANDEZ.**

Secretary, protem.

**The share certificate.—**

After the shares are allotted and the allotment money is paid, the Applicant, who now becomes a shareholder, gets his share certificate. These certificate forms are generally printed in book form with a perforation dividing the same from the counterfoil. This counterfoil, which records the same particulars as the original share certificate, forms a convenient record for reference. A share certificate is *prima facie* evidence of the title of the member to the share or shares held by him as indicated therein. As per the rules of almost all the Stock Exchanges of the world the holder of shares who sells them has to deliver to the buyer this share certificate together with a transfer form duly filled in and signed by himself. The holder of the share certificate therefore should carefully preserve the same. In case the same is lost a new certificate may be obtained from the company as per the regulations provided for in the articles. Usually the regulations applying to such cases provide that the applicant for a new certificate who alleges that the original is lost, stolen or destroyed, ought to give an indemnity bond by which he undertakes to make good any loss which the company may suffer through this lost certificate falling in the hands of some innocent person or under any other circumstances. A third person's guarantee, besides the indemnity bond of the shareholder, is in some cases insisted on. These precautions are considered necessary because the share certificate is considered as "a declaration to all the world that the person in whose name the certificate is made out, and to whom it is given, is a shareholder in the company, and it is given by the company with the intention that it shall be so used by the person to whom it is given, and acted upon in the sale and transfer of shares." (*In re Balina and San Francisco Ry Co.*, 1868, L. R., 3. Q. B. 584). The share certificate is made out generally in the following form :—

No. 1234-1243.

## THE BOMBAY SPINNING &amp; WEAVING Co., Ltd.

Stamp.

This is to certify that Mr. Jivanji Pragji of 15, Church Gate Street, Bombay, is the holder of 10 shares numbered 1234-1243 inclusive, in the above Company, subject to the provisions of the Memorandum and Articles of Association of the Company; and that the sum of Rs. 100 per share has been paid in respect of each of the said shares.

Given under the Common Seal of the said Company, this 1st day of September 1915.

D. R. CAMA,  
SOLOMAN ISAACS,  
THAKERSEY GORDHANDAS, } Directors. (Seal.)

J. FERNANDEZ, Secretary.

No transfer of any of the abovementioned shares can be registered without production of this certificate.

**Form of call letter.**

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The Directors may then make calls on account of these shares as may be found necessary and convenient for the working of the Company and after having decided at their Board Meeting to make a call, the Secretary has to send out notices of call which are generally printed with counter-foils bound in book form and consecutively numbered. The Call Form in the Book of the Notices of Call would be as under:—

No. 113.

The Bombay Spinning &amp; Weaving Co., Ltd.

Notice of Call.

Shares Nos. 1234-1243.

Date of Call, 1st November 1915.

Amount per share Rs. 50.

Aggregate amount Rs. 500.

When due, 15th November 1915.

When paid, 15th November 1915.

Name of Member,  
Jivanji Pragji,

Address, 15, Church Gate Street, Bombay.

Date of Posting Notice, 1st November 1915.

Where posted, G. P. Office.

## Notice of Call.

This form to be sent entire to the Bankers or the Secretary, accompanied by the amount payable.

Notice of call of Rs. 50 per Share.

Making Rs. 150 per Share paid up.

No. 113. Shares Nos. 1234-1243.

The Bombay Spinning & Weaving Company, Limited.

Bombay, 1st November 1915.

Sir,—I have to inform you that at a Meeting of the Directors of this Company held at Bombay on the 1st November 1915 it was resolved that a call of Rs. 50 per Share be made upon the Members of the Company in respect of the moneys unpaid on their Shares payable on or before 15th November 1915 and I have to request that you will, on or before that date pay the sum of Rs. 500 (being the amount of such call in respect of the 10 Shares registered in your name in the Books of the Company) to the National Bank of India, Ltd.

I am, Sir,

Your obedient servant,

FERNANDEZ, Secretary.

To MR. JIVANJI PRAGJI,  
15, Church Gate Street, Bombay.

No. 113.

15th November 1915.

Stamp.

Received of Jivanji Pragji the sum of Rs. 500 being the amount of a call of Rs. 50 per Share on 10 shares in the Bombay S. & W. Co., Ltd.

DOSABHAI FRAMJI

Rs. 500.

## Form of Application and Allotment Book.

The Applications and Allotments would then be entered in the Application and Allotment Book which is ruled as under :—

No. of letter.	Applicant's name.	Residence.	Profession.	Date of Application.	No. of shares Applied for.	No. of shares allotted.
37	Jivanji Pragji.	15 Church Gate Street.	Merchant.	1915 August 21	10	10

**The Share Ledger.**

The entry made in the Share Ledger on a separate page allotted to the name of the particular shareholder is as follows :—

**SHARE LEDGER.**

Name, *Jivanji Pragji*,  
Address, *15, Church Gate Street*,  
Occupation, *Merchant*.

For Shares Held.				For Shares Transferred.				Cr	
Particulars of Debt.	No of Shares.	Dis- tinc- tive Numbers.	Amount payable per share.	Total due.	Date paid.	Total Amount paid.	Date.	To whom Transferred.	No. of Shares.
		From	To					Distinctive Numbers.	Portfolio of Transferee's account.
									Total paid Transferred.
5					1915		1915	From. To.	
21 Application.	10	1234	1243	Rs. 100	21 Aug.	Rs. 100	1st Dec.	1234 1238	
27 Allotment.	10	"	"	Rs. 90	27 Aug.	Rs. 900			
5									
30 Call.	10	"	"	Rs. 50	15 Nov.	Rs. 500			

**The Call Book.**

For each of the calls made, a Call Book is made out with rulings as under and filled in as shown below:—

**CALL BOOK**

First Call of Rs. 50, made 1st November 1915 making amount paid up on each share Rs. 150.

Name.	Address.	Occupation.	Share Ledger folio.	No. of shares held.	Total Amount of Call.	Date paid.	C. B. Folio,	Interest.
Jivanji Pragji.	15, Church Gate Street.	Merchant.		10	Rs. 500	1915. 15th Nov.		
						5		

**The Share Transfer Book.**

The above books, *viz.* the Application and Allotment Book, the Call Book, and the Share Ledger are subsidiary books kept simply to keep a minute record of the whole capital of the Company as held by the different shareholders, the amount actually paid by them and the amount

actually due by them. There is also an additional book known as the Share Transfer Book which records all details as to the transfer of shares from one person to another as shown in the form below:—

# SHARE TRANSFER BOOK.

Date.	No. of Transfer.	Transferrers.		Transferees.				No. of Shares Transferred.
		Folio in register of members.	Name.	Occupation.	Name.	Address.	Occupation.	Folio in register of member.
1915 1st Dec.	27		Jivanji Pragji.	Merchant.	K. Ganguli.	Chandan- wady. Bombay.	Rly. Guard.	

**Letters of Regret.**

In case of those applicants however who are not allotted the shares they applied for, "Letters of Regret" are forwarded by the Secretary informing them that the Shares were not allotted to them. The Shares are not allotted for various reasons. Most frequently this course has to be taken because a larger number of Shares may have been applied for than are available, in which case the Directors naturally select those applicants whom they consider to be the most desirable to be admitted as shareholders and reject the rest. It often happens that even though all the shares are not applied for, there may be among the applicants some who in the opinion of the Directors are not desirable men to be allowed to buy the shares of the Company for one reason or another, and are thus refused allotment. Letters of regret have to be sent to those applicants whose applications are rejected. They are in the following form :—

**LETTER OF REGRET**  
**THE BOMBAY SPINNING AND WEAVING**  
**COMPANY LIMITED.**

Registered Office, Esplanade Road  
Bombay, 20th August 1915.

Karsondas Kanji, Esq.,

Share Bazaar, BOMBAY.

Sir,

I regret to inform you that the Directors are unable to allot you any of the Ordinary and Preference Shares of this Company, in compliance with your application for 75 Ordinary Shares and 25 Preference Shares.



Please find enclosed a cheque for Rs. 1,000 being the amount paid by you on the abovementioned application, and I shall be glad if you will sign the form of receipt at the foot of the cheque sent herewith, and present the same for payment through your Bankers (with the original form of receipt attached thereto).

As the cheque contains a form of receipt, no further acknowledgment from you will be necessary.

Yours faithfully,

J. Fernandez,

Secretary.

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No. 543167

Bombay, 20th August 1915.

Stamp.

To

The National Bank of India, Ltd., Bombay.

Pay to Karsondas Kanji, Esq., or order, the receipt below being signed, the sum of Rupees One Thousand,

For the Bombay Spinning & Weaving Co., Ltd.,

D. R. Cama, DIRECTOR.

J. Fernandez, SECRETARY.

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RECEIPT

24th August 1915.

Received of the Bombay Spinning & Weaving Company, Limited, the sum of Rupees One Thousand, being the amount deposited by me on application for one hundred Shares in the same.

Rs. 1,000-0-0

Stamp.

**Share Transfer Form.**

We saw in the Share Transfer Book that one of the Shareholders, Mr. Jivanji Pragji, of the company transferred five shares from his name to that of Mr. K. Ganguli. The transfer is effected by filling in a Share Transfer Form which is to be signed by both the seller Mr. Jivanji Pragji and the buyer Mr. K. Ganguli. The seller here offers to transfer his right, title and interest in these five shares to the buyer Ganguli and the buyer on the other hand agrees to take over the Shares with all rights and liabilities arising therefrom in case the shares are not fully paid or when the company is an "unlimited" company. The Transfer form runs as follows :—

**SHARE TRANSFER.**

Certificate of the within mentioned five Shares has been lodged at the Co.'s Office.  
J. Fernandez,—Secretary.

I, Jivanji Pragji, of 15, Church Gate Street, Bombay, in consideration of the sum of Rs. 5,500 paid by K. Ganguli, of Chandanwady, Bombay, Railway Guard, hereinafter called the said Transferee, do hereby bargain, sell, assign and transfer to the said Transferee:—Five fully paid Shares of Rs. 1,000 each, numbered 1234 to 1238 inclusive, of and in the undertaking called The Bombay Spinning & Weaving Co., Ltd., TO HOLD unto the said transferee, his Executors, Administrators and Assigns, subject to the several conditions on which I held the same immediately before the execution hereof; and I the said Transferee do hereby agree to accept and take the said Shares subject to the conditions aforesaid As WITNESS our Hands and Seals, this first day of December in the Christian Year One Thousand Nine Hundred and Fifteen.

Signed, sealed, and  
delivered, by the above Jivanji Pragji.  
named Jivanji Pragji, in  
the presence of

Witness's { Signature, .....  
Address, .....  
Occupation, ..... (Seal.)

Signed, sealed, and delivered,  
by the abovenamed, K. K. Ganguli.  
Ganguli, in the presence.  
of

Witness's { Signature, .....  
Address, .....  
Occupation, ..... (Seal.)

Signed, sealed, and delivered,  
by the abovenamed, .....  
.....  
in the presence of

Witness's { Signature, .....  
Address, .....  
Occupation, ..... (Seal.)

Signed, sealed, and delivered,  
by the abovenamed, .....  
.....  
in the presence of

Witness's { Signature, .....  
Address, .....  
Occupation, ..... (Seal.)

The Share Transfer Form requires to be stamped *AD VALOREM* and in computing the stamp duty the consideration paid by the buyer to the seller has to be considered. The transfer contains the consideration amount

for which the shares are sold, but it often happens that the consideration as shown and inserted in the "Transfer Deed" differs from that which the original seller actually receives from the original purchaser when for instance, before the transfer is actually effected the original purchaser has again sold away the shares to a sub-purchaser. Here according to Law the actual amount paid by the sub-purchaser to the original purchaser would have to be entered as "consideration money" in the Transfer Deed and not the actual amount which the original seller received from the original purchaser.

It may be added here that in case of well established Companies that have worked for a number of years, paid satisfactory dividends, and shown very good results, a second or a subsequent issue of shares is often made with a view to collect further capital in order to extend the scope of the business. In such cases the new issue of shares is naturally in great demand and is quoted at a premium in the market. The directors in such cases generally follow the wise plan of giving the old shareholders the first opportunity to purchase these shares and in such a case this opportunity to purchase shares in proportion to the number of shares already held in the company is in itself an asset of some value which can be sold or transferred to some one else. In this case the secretary will be instructed to address letters informing the shareholders of the right which they can exercise and attached to these letters there are two printed forms *viz.*, (1) the Form of Renunciation and (2) the Form of Acceptance. If the shareholder prefers to exercise this right himself in his own name he fills in the last named "Form of Acceptance" and sends the same to the secretary. On the other hand if he wants to waive his right for the shares in favour

of some other person, he fills in the first Form *viz.*, the "Form of Renunciation."

**Form of Renunciation Letter.**

THE BOMBAY SPINNING AND WEAVING  
COMPANY, LIMITED.

15, ESPLANADE ROAD,  
*Bombay, 1st September 1915.*

To,

Naoroji Bomanji Esqr.,  
Tamarind Lane, Fort,  
BOMBAY.

Sir,

INCREASE OF CAPITAL.

As a Member of the Company you are entitled to an allotment at par of 50 new Ordinary Shares about to be issued, in accordance with the special resolution passed on the 28th August 1915, being at the rate of two new Ordinary Shares for every four Shares now held by you.

Unless I hear to the contrary meanwhile, the 50 Ordinary Shares in question will be allotted to you on the 15th September 1915.

Should you desire to renounce your right to such allotment in favour of some other person, please be good enough to sign the Letter of Renunciation below, and have it forwarded to this office on or before 10th September. This letter is not to be detached.

Your obedient servant.

J. Fernandez,

Secretary.

## LETTER OF RENUNCIATION.

To

Stamp.

The Bombay Spinning & Weaving Co., Ltd.,

Being entitled to an allotment at par of 50 Ordinary Shares of Rs. 1,000 each in the above Company, I hereby renounce my right to such allotment and hereby request you to allot such Shares to :—

(Full Name) Abdul Husain Taki, Esqr., Merchant,

(Address) Chuckla Street, Bombay.

(Signature) Naoroji Bomanji.

(Date) 7th September 1915.

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## LETTER OF ACCEPTANCE.

To the Bombay Spinning & Weaving Company, Limited,

I agree to accept the above 50 Ordinary Shares, and to pay the calls thereon, and desire to be entered on the Company's Register of Members in respect thereof.

(Signed) Naoroji Bomanji.

(Address) Tamarind Lane, Fort, Bombay.

(Description) Engineer.

(Date) 7th September 1915.

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**Form of Notice of Call.**

With regard to the notice of Call it may be mentioned here that if a shareholder fails to pay according to the notice, the Directors may at their Board Meeting decide to forfeit his shares and in such a case the defaulting shareholder will be still liable for the payment of the call that was already made, in spite of the forfeiture. The letter as to forfeiture written to the defaulting member will be in the following form :—

THE BOMBAY SPINNING AND WEAVING  
COMPANY LIMITED.

15, Esplanade Road, Bombay,

Bombay 25th September 1915.

John Hardup, Esq.,

Elphinstone Circle,

BOMBAY.

Dear Sir,

I regret that you having failed to comply with the notice forwarded to you on 15th August 1915 in which I stated that your shares were liable to be forfeited in case the first call made on your shares were not paid after the date specified in my last letter, I am directed to inform you that in the meeting held to-day the ten ordinary shares Nos. 2300—2309 inclusive, which were registered in your name, have been duly forfeited by the resolution of the Board of Directors. The Directors have reserved to themselves the power either to reissue the said shares or to deal with them in any other manner as they may think fit and in the meantime I have to point out to you that you are still liable for the payment of the first call, in spite of their forfeiture.

Yours faithfully,

J. FERNANDEZ,

Secretary.

**Form of Statement in lieu of Prospectus.—**

In case of companies who do not issue a prospectus a statement in lieu of prospectus has to be issued. This statement is in the following form :—

**The Indian Companies Act, 1913.**

(Section 98.)

**STATEMENT IN LIEU OF PROSPECTUS**

filed by

**THE BOMBAY SPINNING & WEAVING  
COMPANY, LIMITED,**

Pursuant to section 98 of the Indian Companies Act, 1913,

Presented for filing by

**THE BOMBAY SPINNING & WEAVING  
COMPANY, LIMITED.****STATEMENT IN LIEU OF PROSPECTUS.**

<b>The nominal share capital of the Company</b> ...	<b>Rs.</b>
<b>Divided into</b> ... ..	<b>Shares of Rs. each.</b> " " " " " "
<b>Names, descriptions and addresses of directors or proposed directors and of the Managers or proposed Managers.</b>	
<b>Minimum subscription (if any) fixed by the memorandum or articles of association on which the company may proceed to allotment.</b>	
<b>Number and amount of shares and debentures agreed to be issued as fully or partly paid up otherwise than in cash.</b>	<b>1. shares of Rs. fully paid</b>
<b>The consideration of the intended issue of those shares and debentures,</b>	<b>2. shares upon which Rs. per share credited as paid.</b> <b>3. Debentures Rs.</b> <b>4. Consideration.</b>



<p>Names and addresses of (a) vendors of property purchased or acquired (b) or proposed to be purchased or acquired by the company.</p> <p>Amount in (cash, shares or debentures) payable to each separate vendor.</p>	
<p>Amount (if any) paid or payable (in cash or shares or debentures) for any such property specifying amount (if any) paid or payable for good-will.</p>	<p>Total purchase price                      Rs.</p> <p>Cash                      ..                      "</p> <p>Shares                      ..                      "</p> <p>Debentures.                      ..                      "</p> <p>Goodwill                      ..                      "</p> <p>Rs. ———</p>
<p>Amount (if any) paid or payable as commission for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares or debentures in the company or,</p>	<p>Amount paid.                      Rs.</p> <p>                    " payable.                      Rs.</p>
<p>Rate of the commission                      ..                      ..                      ..                      ..</p>	<p>Rate per cent.</p>
<p>Estimated amount of preliminary expenses                      ..</p>	<p>Rs.</p>
<p>Amount paid or intended to be paid to any promoter.</p>	<p>Name of promoter</p> <p>Amount Rs.</p>
<p>Consideration for the payment                      ..                      ..                      ..</p>	<p>Consideration:—</p>
<p>Dates of, and parties to every material contract (other than contracts entered into in the ordinary course of the business intended to be carried on by the Company or entered into more than two years before the filing of this statement).</p>	
<p>Time and place at which the contracts or copies thereof may be inspected.</p>	
<p>Names and addresses of the auditors of the Company (if any).</p>	

Full particulars of the nature and extent of the interest of every director in the promotion of or in the property proposed to be acquired by the company, or, where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the company.

Whether the articles contain any provisions precluding holders of shares or debentures receiving and inspecting balance-sheets or reports of the auditors or other reports.

Nature of the provisions.

(Signatures of the persons abovenamed as directors or proposed directors, or of their agents authorised in writing).

### Form of Return of Allotments.

It should also be noted that as per the requirements of the Indian Companies Act 1913 (S. 104) whenever a company having a share capital makes any allotment of its shares, a return must be filed with the Registrar within one month of the allotment. This return has to state the number and nominal amount of the shares comprised in the allotment, the names, addresses and descriptions of the allottees and amount if any paid or due and payable on each share and should be in the following form :—

## THE INDIAN COMPANIES ACT, 1913.

## RETURN OF ALLOTMENTS

OF

THE BOMBAY SPINNING & WEAVING  
COMPANY, LIMITED.

from the 21st day of August 1915 to the 1st day  
of September 1915.

Made pursuant to Section 104 (1)

of the Indian Companies Act 1913.

Number of Preference shares allotted payable in cash

Rs.

„ • Ordinary „ „ „ Rs.

Nominal amount of Preference shares so allotted, Rs.

„ „ Ordinary „ „ „ Rs.

Amount paid or due and payable on each such

Preference share, Rs.

„ „ „ „ Ordinary „ , Rs.

Number of shares allotted for a consideration other  
than cash, Rs.

Nominal amount of shares so allotted, Rs.

Amount to be treated as paid on each share, Rs.

The consideration for which such shares have been  
allotted.

Names, addresses and descriptions of allottees of Shares  
in the Bombay Spinning & Weaving Company Limited.

Surname.	Personal name.	Address.

Signature, (Sd.) J. FERNANDEZ.

Bombay, 2nd September 1915.

Secretary.

**Form of the copy of the Register of Directors.**

A complete Register of directors or managers of every Company must be kept containing their complete list of names, addresses and occupations. This has to be filed with the Registrar from time to time showing changes. This will be in the following form:—

**The Indian Companies Act, 1913.**

*Copy of Register of Directors or Managers*  
of

**THE BOMBAY SPINNING & WEAVING  
COMPANY LIMITED**

and of any changes therein.

(Pursuant to Section 87 of the Indian Companies  
Act of 1913.)

Names of present Directors or Managers.	Addresses.	Occupations.	Changes, showing names, if any.

*Dated the 30th of September 1916.*

(Sd.) J. FERNANDEZ.

*Secretary.*

### The Common Seal.

A Joint Stock Company is a body corporate by the name contained in its Memorandum, having a perpetual succession and a common seal. The name of the Company has to be engraven in legible characters on its seal. This seal is a sort of sign manual to be used on all important documents as provided for in the Articles of Association. It is generally provided that the seal shall be affixed in the presence of at least two Directors and the Secretary. These Directors sign the document so sealed which is then countersigned by the Secretary. The seal is kept under lock and key, generally two locks being maintained; the key of one of these locks is kept with the Secretary, whereas that of the other is kept by one of the Directors. In order to keep a proper record of the affixing of this seal it is usually arranged that a special book called the "Seal Book" be maintained containing a record as to the occasions on which the seal is used together with the description of the documents on which the same is affixed. This entry is then initialled by the Directors present. These entries in the seal book should exactly coincide with those in the Minute Book. The Seal Book is ruled in the following form:—

**SEAL BOOK.**

Date of Sealing.	No. of Minute and page of Minute book.	Documents sealed.	Directors' initials.	Remarks.

**Underwriting,—its advantages and drawbacks.**

We have already had a passing glimpse of what the transaction known as "Underwriting is." It is defined in the case of *In re Licensed Victuallers' Mutual Trading Association, 1889, 42. Ch. D. 1.* as "An agreement entered into before the shares are brought before the public, that in the event of the public not taking up the whole of them, or the number mentioned in the agreement, the underwriter will, for an agreed commission, take an allotment of such part of the shares as the public has not applied for". It will thus be seen that this agreement is a species of insurance against the eventuality of failure in floatation through the public subscription falling short of the figure fixed by way of a minimum subscription. The underwriting commission is no doubt a charge or burden on the Company, but the advantage of this form of agreement in case of new enterprises, particularly those with some novel feature about them, is apparent. In the absence of this medium many an enterprise that would have flourished and perhaps altered the country's economic position to its advantage, would fail for want of public support towards the subscription of its capital, through unreasonable doubts or unusual pessimism on the part of the investing public. The underwriting of the shares of companies aiming at the introduction of such enterprises by financiers of repute and standing, whose judgment the average small investor has learnt to respect, is a sufficient guarantee of its financial success as far as floatation is concerned. The condition precedent to the lawful payment of an underwriting commission is the offer of shares for a public subscription. The actual amount that may be advantageously underwritten will depend on the circumstances of each case. Frequently the whole amount offered

For public subscription is underwritten, though having regard to the object with which this transaction is effected viz., to ensure the financial success as far as floatation goes, the least amount that should form part of this compact is that covered by the minimum subscription on the securing of which the directors are entitled to proceed to the allotment of shares. This underwriting of shares may either be done by private individuals or a company, such as an Industrial Bank. The actual percentage to be paid also depends on the circumstances of each case, there being no legal limit fixed in that direction. We have already noticed that this commission forms a burden which has to be written off out of future profits and all that can be said about it is that the promoters should see that this charge is as light as the circumstances permit, in case the same cannot be entirely avoided.

### **The Shares.**

The "Share" is one of the parts in which the capital of a company is divided. The holder of such a share is a sort of proprietor of the company, whose interest is measured by the sum of money it represents, both for the purpose of ascertaining his interest in the concern, as well as of gauging the extent of his liability therein. In the case of a limited company the holder's liability is limited to the amount represented by the share, or shares he holds, whereas, in the case of an unlimited company his liability has no limit, *i. e.*, he may be called upon in the case of liquidation of an insolvent company to pay contributions till the whole of its liabilities are extinguished.

The shares of Joint Stock Companies are divided into Preference, Ordinary and Deferred or Founder's shares.



The Preference share carries a preference as to the payment of dividends out of the profits of each year up to a fixed percentage which preference may be made Cumulative i. e., in case the profits of a particular, or a series of consecutive years, do not admit of a dividend being paid, such dividend accumulates to be paid during any subsequent year when the profits are large enough to admit of such a payment. In this case, the dividend for the year during which these profits are made, is paid first, and then that of each immediately preceding year is settled till all arrears are wiped off. In case a surplus is left after these payments, the Ordinary Shareholder is paid out of it his dividend for the current year up to the fixed or agreed percentage. The balance, if any, is divided either in full or in the proportion fixed by the articles among the holders of Deferred or Founder's shares.

### **Which Shares to invest in.**

The answer to the question as to which form of security out of the three classes dealt with above, should attract investors, depends on the nature of the enterprise, as well as on the temperament of the investor concerned. Mr. Nixon in his book on "Advanced Book-keeping" very aptly remarks that Mr. Cautious invests in Preference Shares, Mr. Speculative in Deferred Shares, and Mr. Medium in Ordinary Shares. We might complete the picture by adding that Mr. Wiseman invests in all in due proportion, selecting the enterprise in each individual case with due care and proper judgment. In case of investors who are satisfied with a moderate return on their capital, as long as the same is steady and regular, the Preference Shares of a substantial company offer the best medium. The only other form of Joint Stock Company investment which is con-

sidered more secure than that of Preference Shares, is that offered by Debenture Bonds of substantial companies, particularly those carrying a fixed charge on some valuable property of the company. Here the status of the investor is that of a secured creditor. The percentage of interest earned on such investments will be naturally lower compared to the dividend fixed on Preference Shares of a company of equal credit and standing. Where the Preference shares carry also preference as to the return of capital on liquidation, they are even more attractive to a cautious investor of the class we are considering, though of course the Debenture holder stands on a superior footing here also.

In case of Ordinary Shares the risk involved is that in case the company has issued Preference Shares also, the dividend is payable only when sufficiently large profits are made so as to leave a substantial surplus after the payment of Preference share dividend. This form of investment appeals to those who prefer to run some risk in the hope of getting a larger dividend. In case the company proves successful and large profits are made, the Ordinary Share-holder not only benefits through the division of a large percentage by way of dividend but the market value of the shares generally rises simultaneously, thereby increasing the capital value of his investment.

In case of Deferred or Founder's Shares though the chances seem at first sight to be against them, yet in case of speculative types of enterprises, such as gold or diamond mining companies, they form the best media for investment for those who are prepared for some speculative excitement. In case the mine proves a success there is no limit as to the income as well as to the appreciation of

the capital value of such shares. In India we can quote the example of the Tata Iron and Steel Mining Co., Ltd., whose deferred shares which were issued at the par value of Rs. 30 touched Rs. 1400 some time ago in the Bombay Share Bazaar. In such enterprises, an investment in Preference Shares offers the least advantageous medium for investment. In case the mine were to prove a hopeless failure, the Preference Share holders would not command much advantage in liquidation, even though their shares carried a preference as to the return of capital as almost the whole of the capital in such cases is irretrievably lost in sinking of shafts and similar expenditure. In the absence of such a provision they are even worse off as under the circumstances they rank equally with the Ordinary Share-holders. On the other hand during prosperous times they have to be satisfied with a fixed dividend of about six to seven per cent and passively watch the holders of the Ordinary and Founder's Shares gather the spoil in the form of fabulously large dividends not to speak of the still larger profits made by selling these shares at the inflated market price. The modern investor has learnt this by experience, and nowadays the Deferred or Founder's Shares in enterprises of this nature are largely in demand, with the result that promoters find it advantageous, to attach an option to purchase one Founder's share in return for a certain number of Preference or Ordinary shares purchased.

#### **The Weak points *re* Deferred Shares.**

The Deferred or the Founder's shares were in old days of company floatation generally allotted as fully paid to the promoters, or founders, by way of compensation or reward for the services rendered by them to the company

in conceiving the idea of floating the company and incurring the out of pocket preliminary expenditure thereon. As they were to rank last in the sharing of dividend, the original impression was that that was the least expensive method of remunerating these gentlemen. When however the large amounts drawn by some of them by way of dividend in the most successful of companies came to be known, the fallacy of the original idea became apparent, and the present practice of offering this class of shares to the public, as dealt with in the previous para, came into force. In spite of this modification it is thought by some that there is a certain element of weakness or risk involved in the issue of founder's shares as it carries with it a temptation to bad finance. The Directors may, it is argued with some force, be induced to declare dividends on Preference and Ordinary Shares, with a view to be able to pay dividends on these Founders' Shares during prosperous years without making adequate provision for depreciation and without transferring a substantial sum to the Reserve Fund. The element which seems to give rise to this reflection is the fact that the bulk of the profit made during an exceptionally good year has, as per the regulations, generally to be arbitrarily distributed among the holders of Founder's Shares. A cautious and businesslike board, armed with a set of carefully framed regulations, providing some form of gradation in connection with the distribution of dividends, appears to be the best remedy.

## CHAPTER VII.

**Company Organization and Secretarial Work.****Individual vs. Collective Responsibility.**

Having so far considered the various questions of incorporation, organization and the practical work connected with the joint stock company combination, we shall now proceed to deal with the question of the selection of the staff, or the employees, and deal with the duties connected with the principal offices in some detail. It has been repeatedly emphasised in the previous chapters that the success of this form of combination mainly depends on the efficiency of the officers and the extent of personal interest displayed by them in the successful working of the enterprise. It has been conceded by the best authorities, that the duties and responsibilities of men in charge of the establishment should be regulated on the collective responsibility principle, in order to ensure smooth and continuous work. If a concern is made to hang on the sole and individual responsibility of the chief officer, that officer has not only to be exceptionally capable, but the danger is, that the abilities of his subordinates are likely to be dwarfed for want of continuous practice and experience in the work where initiative and original thought are required, with the result that the sudden removal of the chief through illness, death, or resignation, leaves the whole establishment in a state of confusion and stagnation, till his place is filled in by an outsider equally capable. On the other hand, if the establishment is carefully divided into departments, each in charge of an efficient head, with a careful distribution of work and responsibility, permanence of efficiency is ensured and an opportunity for development

of originality and initiative brought within the reach of a much larger number. The removal of one of the heads, through any of the accidents above enumerated, does not give rise to any inconvenience under this form of organization, because the post can be filled up by gradual promotion from the staff itself. This affords the additional advantage of creating a sort of incentive among the staff to work hard and bring out the best of their talent in the service of the company in the hope of promotion. The humblest member of the staff should be made to feel that the highest and the most remunerative office is open to him provided he proves himself worthy of it.

### **Selection of the staff.**

#### **Nepotism.**

In order to be able to offer the highest prospect to the individual members of the staff who start on a modest scale, the selection has to be made on a carefully arranged footing. Ability alone should be the guiding factor, and family influence as well as considerations based purely on racial or caste feelings should be strictly and rigidly avoided. Many a good business has been ruined when, as Prof. Russell Smith puts it in his excellent book on "Elements of Industrial Management" 'Nepotism' is resorted to. Nepotism is derived from the Latin word *Nepos*, a nephew or grandson, and means favouritism shown to nephews and other relatives with a view to find them some remunerative employment, irrespective of their training or abilities. In the words of the same learned author "They are nice young men, it is true, and being of the blood of the successful, they have, upon the average, a better chance of inheriting

the qualities for success than the average man. The trouble is that the potential qualities for success must, we know, be developed by education and experience. The latter they often fail to get. Merely because they are these fortunate nephews, they do not get the knocks that give the experience necessary to develop their powers. The old saying that 'Blood is thicker than water' is really a potent destroyer of good business. It is a fact, blood is thicker than water. We love our relatives, we like our friends, and we are going to do the best we can for all of them, with the result that we put men in positions because they are our friends or relatives rather than because they are fitted by nature or experience to assume responsibilities in the best possible way. Another name for Nepotism is 'pull'. It puts the right man in the wrong place, where he can wreck enterprises. It also discourages other young men because they see that a rival has an opportunity merely because of relationship, not because of merit. This evil is particularly strong in old enterprises that run through second and third generations. A man starts a concern, hands it down to two or three sons, who vary in ability, and by the time their sons have got good positions all the way through the concern, it is well fixed on the high way to ruin. Almost any person of wide observation can name a few examples in point". Human nature in the United States of America, where these words were written, is evidently in no wise different from that in India. Do we not know of companies and enterprises started and successfully developed by the founders, particularly by some of our old firms of "Secretaries and Agents", which were handed down to their children in a flourishing condition, gradually exhibiting signs of decay?

Returning to our subject, the first and foremost consideration in the selection of the staff should be ability and training. In the recruiting of young men, even for the most junior positions, it is best to insist on a certain amount of theoretical training as the starting point. In these days of wide opportunities for acquiring a specialised education in the various departments of commercial activity, there is no reason why a young aspirant who expects to be admitted in any well regulated business office should not arrange to get the necessary equipment for the efficient discharge of his duties.

### **Technical and Business Knowledge Distinguished.**

The other point to be remembered, particularly in the selection of the Manager or Secretary is the fact frequently lost sight of *viz.*, that technical knowledge and business ability are two distinct qualifications. In other words, a technical expert, say for example a practical chemist, will no doubt prove a good acquisition for the laboratory of a company formed to manufacture patent drugs, but if he is handed the charge of office management *i. e.*, the work of pushing the sales and organizing a distribution campaign, he is bound to fail. Many a promising Indian enterprise has failed through the total disregard of this most potent factor. There should be an appropriate division of work. The technical expert should strictly keep himself within the limits of factory management, whereas, the business specialist should be left a free hand in connection with his office work and finance. Both should however co-operate by an exchange of views in order to bring about the most successful result. This class of mistakes are common in connection with Companies formed in order to work a patent. Here the inventor is hardly the fit person to act



as the manager. He is no doubt an expert as far as the production or improvement of his invention goes, but he seldom possesses the ability and judgment necessary to push the sales or to control the financial side of the enterprise. This branch of work must be left in charge of a business specialist.

### **Specialization vs. General Knowledge.**

This brings us to the consideration of the important distinction to be drawn between the specialist and the general business expert. Specialization within certain limits, and in certain branches of work, has no doubt proved to be the most advantageous from the point of view of efficiency, but there are other employments where the zeal for specialization may be carried too far. Mr. Harry Tipper in his book entitled "The New Business" rightly states that "Specialization in any kind of pursuit has the tendency to limit the outlook in breadth while increasing it in depth." In other words a specialist no doubt acquires a deep knowledge of his own branch of human activity, but outside its limits he is a mere child. The result is that the specialist can only be used as a component part of a large organization, working and co-operating in that work with his brother specialists in other departments, but all of them have to be directed and guided by a master mind at the head of the organization who has acquired a sort of a "specialised knowledge of general affairs". The specialist efficiently assists the general manager with the practical solution of the problems set before him but he is incapable of creating ideas as far as directing of the whole organization is concerned. This according to Mr. Harry Tipper "must be done by a mind well enough equipped with general knowledge of human affairs to construct, with a

sufficiently broad understanding of the relations of the different branches of human affairs, the plan upon which the operating problems are based. It is for this reason that many of the most successful merchants have been found among those who were not specialists in anything except the broad interests in humanity and buying and selling, but who because of this broad knowledge could direct the work of the specialists in any particular line so that the greatest efficiency could be secured out of the whole plan". To support this argument further Mr. Tipper adds that "Commercial affairs of to-day dealing with enormous masses of employees, with trade extending over the whole world, with activities of scores of sciences and innumerable details of practice, are demanding more and more not the detailed information along single narrow lines possessed by the specialist but the broad general information which permits of a view point properly proportioned with due consideration of the prospective."

It will thus be noticed that in the grouping together of the staff of a large establishment, we have to provide for specially selected specialists, who are to carry out instructions from higher quarters and who are to be directed and guided by managers or heads possessed of general knowledge, wide experience and considerable practical ability. Our Business Schools and Colleges should therefore devote their attention to the manufacture both of the specialist, and the businessman with a "specialised knowledge of general affairs".

#### **Staff grouped as per internal organization requirements.**

In case of companies the internal management is controlled by the following agencies:—

- (1) the Proprietors or Shareholders,
- (2) the Board of Directors,
- (3) the Secretaries and Agents,
- (4) the Departmental managers,
- (5) the employees in the various departments.

In case of industrial corporations, there is also a distinct staff in connection with the factory or mill with the technical managers, superintendents, foremen and the labour force. The details as to these are discussed in a subsequent chapter dealing on Industrial Organization. For the purpose of this chapter we shall only consider the five heads as given above.

### **Control of Proprietors or Shareholders.**

The control exercised by the shareholders on the organization is very limited as we have already noticed. The shareholders may be regarded as so many voters in a self-governing political association. The Board of Directors form a sort of Parliament and the Committees formed from among them resemble so many cabinets with the chairman at the head as the Prime Minister. The managers of department as well as the Secretary are so many executive officers, who are assisted by the staff under them in the working of the whole organization.

The shareholders exercise the right of selecting the Directors, or confirming their appointments at general meetings, when vacancies occur in course of the working year. They elect their auditors to audit the accounts and report to them on the same at the annual general meetings. Important steps in the work of the company such as the alteration of the name or the objects clause, or reduction or increase of capital, or alteration of the liability

clause of the memorandum, can only be carried out by a resolution of the shareholders either ordinary, extraordinary or special. They exercise certain jurisdiction in connection with the declaration of dividends and winding up of the company, particularly in connection with the voluntary winding up which can only be given effect to by their resolution.

## **The Board of Directors.**

### **Their powers.**

We have already dealt with the points of interest in connection with the selection of Directors. There should be at least two Directors in case of every company as per the amending act of 1914, but there is nothing to prevent a larger number being selected as is usually done. In case there is a default in the appointment of the Directors, the subscribers to the memorandum are to be deemed the Directors of the Company until the shareholders formally appoint them. Any casual vacancy in the Board may be filled up by the Directors, but the person so appointed shall be subject to retirement at the same time as if he had become a Director on the day on which the Director in whose place he is appointed, was last appointed. The Directors should take up their qualification shares as laid down by the articles within two months of their appointment or any shorter period as provided for in the articles.

The powers of the Directors are fixed by the articles of association. They may be as wide as those of the company itself. The articles may give special powers to one or more Directors who may be styled the Managing Director or Directors. There is no objection to a firm, or a limited company, being appointed a

Director. The position of the Directors resembles that of attorneys or agents of the company in some respects, in so far as they can enter into contracts on behalf of the company with outsiders and bind the company. Their functions resemble those of trustees as regards the assets and property of the company which come into their possession. They are not to make secret profits out of the company, taking advantage of their position as Directors. Nor should they enter into contracts with the company on their own behalf or on behalf of some other company of which they are Directors, unless sanctioned to do so by the articles or by the company in general meeting.

In laying down the powers which the Directors are to exercise, care should be taken to include all possible powers they should possess with a view to enable them to carry out their duties efficiently. Any undue restriction is bound to hinder the smooth working of the company and may involve the necessity of calling meetings of shareholders, resulting in delay and expense. Where the articles are silent with regard to any particular power which the Directors wish to exercise, the implication of law is that they can do all that is ordinarily necessary in order to be able to carry on the business of the company with which they are entrusted. It is however unsafe to rely upon implied powers. The articles should provide for them in detail. If the Directors commit any act which is beyond their powers *i. e.*, *ultra vires*, they make themselves personally liable but the shareholders may ratify the act if the same is *intra vires* the company. In case the shareholders have passed a proper resolution laying down the policy to be pursued by the Directors, the latter are bound to obey the same.

The first auditors of the company are appointed by the Directors and any casual vacancy in this connection is filled in by them,—of course subject to the confirmation of the shareholders at their general meeting. They have to exercise their powers with due diligence and to use their best judgment in the exercise of same. They are not responsible for any loss caused through mere error of judgment unless the same falls under the heading of gross negligence. The Directors generally select the staff of the Company and decide what, if any, dividend is to be paid.

### **The Necessity of holding actual Board Meetings.**

The Directors act through their Board Meetings, and give effect to their actions and decisions through the medium of resolutions. The regulations as to the holding of Directors' Board Meetings are to be found in the articles. In some companies the articles provide that a document signed by all the Directors shall be as effective as a resolution of the Board. It is not yet settled whether such a provision or practice is valid. In one case (*Portuguese Copper Mines, 1889, 42 Ch. D. 160*) Fry L. J. expressed considerable doubt as to the validity of such a practice, as according to his Lordship, "without a meeting the directors cannot think". From the standpoint of practical organization as well, such a course seems to be open to objection. If decisions are to be arrived at without a meeting, where alone an exchange of views and discussion of both sides of the question are possible, such decisions can hardly be considered to be perfect. Almost every businessman with some experience of board and general meetings must have come across instances where men who attended meetings with the firm resolution to vote against or in favour of a proposition, were led to change their minds

after following the discussion and exchanging views with others present at these meetings. The mechanical issue of, and the automatic record of signatures on the circulars, strikes at the root of the principle on which a joint stock company organization is based, *viz.*, the direction of the affairs of the Company according to the will of the majority after giving every side a full and fair opportunity of representing its own views on the question at issue.

### **Division of Executive Functions of the Board.**

In small companies the chairman is appointed the Managing Director and as such controls the internal administration of the enterprise. He presides at the meetings of the shareholders, as well as those of the Directors, and looks after the details of the administration as a whole time official. In large companies however, the Board divides itself into a number of committees, such as, the Finance committee, the Works committee, the Share Transfer committee, the General Purposes committee etc., to each of which special functions are allocated. These committees look after the administration of their respective sphere of work and report at fixed intervals to the General Board who formally adopts their report. Special Minute Books are maintained to record the minutes of the work of each of these committees, the proper working of which is left in charge of the principal executive officer, *viz.*, the Secretary. We shall deal with the details of the Secretarial work under its special heading. This power of delegation of the work of the Board of Directors to the committees is generally provided for by the Articles of Association. Thus the Finance Committee looks after the financial problems, the Works Committee deals with questions of works administration, the Share Transfer Com-

mittee deals with the question of transfer applications for shares, etc. This division of work brings about the best result both with regard to the economy of time and labour, and the efficiency of administrative work through its concentration in the hands of those who happen to be the most capable to deal with same.

## **The Secretary.**

### **His Selection and Duties.**

In almost all companies the Secretary is the most important executive officer. His exact duties depend upon the powers and discretion allowed to him by the Board, particularly in cases where he is a paid whole time official. When a firm is appointed as "Secretaries and Agents," as is common in India, the Articles of Association give them considerable powers and in some cases the wide scope allowed to them by the articles leaves in actual practice very little to be done by the Board of Directors. From the standpoint of efficient organization however, the Secretary whether an individual or a firm, should be strictly made to work under the control and direction of the Board of Directors. He should have no greater status than that of the servant of the company engaged to carry out the instructions of the Board. It is no doubt true that in spite of all restrictions, an able Secretary will always wield considerable influence on the Board whose confidence he has succeeded in winning. Under proper control however the chances of his misusing the powers and the discretion allowed to him will be minimised.

The selection of this important official should form one of the principal steps in the early organization of the company. The choice should fall on an expert with special training and experience in Company Work and Practice, with



a wide range of specialised knowledge in general affairs. He should also be able to control a large number of men, specialists as well as the general office staff, and should possess an impressive personality. As he has to look after the general correspondence, sales and purchases, he should be able to handle these departments of work efficiently and should possess some particular knowledge of the class of goods the company is dealing in. He should above all be a man of honour and integrity who is not likely to use his official position or knowledge as to the internal working of the company, to his own advantage or to those of his friends and relatives.

The duties of the Secretary may be dealt, with under the following heads :—

- (1) Correspondence and General office work.
- (2) Early company work, when appointed as a Secretary of a newly formed company.
- (3) Preparation for and work in connection with Board Meetings.
- (4) Preparation for and work in connection with Shareholders' Meetings.

### **Secretarial Correspondence and General Office Work.**

As the principal executive officer, the Secretary has to carry out the instructions of the Board and for that purpose has to attend to the correspondence on behalf of the company which he generally signs as the agent of the Company. The Secretary for this purpose should see that the instructions on which he acts are clear and to the point. He has no right to act contrary to his instructions, even though he may think that course to be necessary in the interests of the Company.

On all important questions he should constantly consult his Board, or the Committee entrusted with the particular department. Even on matters on which he is allowed a discretion, it is safe to consult the chairman in case of any doubt or difficulty. With regard to the general office work he has to see that the same is properly distributed among the various departments and that each departmental manager is made responsible for the result. He has to exercise general supervision here as well as to give general directions in the conduct of the work of the company,—of course under orders and sanction of the Board of Directors or one or other of the executive committees. In small companies he has to manage the whole office establishment, as in such cases the offices of the Secretary and the Manager are generally merged in one person.

In case of a newly incorporated company he has to supervise the filing of the necessary documents and to assist in the conduct of business at the various Board Meetings held. In case his services are engaged before incorporation, his appointment will be *sub pro tem* which is to be duly confirmed after incorporation. He should see the name of the company displayed outside its office premises in prominent letters with the word “Limited” added to it, in case the same is a limited company. On the other hand the newly appointed Secretary to an old established company in place of a retiring officer will find his work to be easier with precedents to follow. In the case of a new company his capacity for organization of the office will be fully exercised, whereas in a going concern he will find a system of organization already in work. All he has to do in the latter case is to follow precedents wherever they appear to be sound and offer suggestions for alteration and improvements wherever

necessary. All letters received should, as far as possible, be opened in the Secretarial office, either by the Secretary or his immediate assistant, and then sorted and distributed to the proper departments for attention. All important letters should be attended to by the secretarial staff itself after obtaining information or explanations necessary from the department or departments interested.

With regard to the Accounts Department, the work here will no doubt rest in the first instance with the Accountant of the company, who is a specialist in his branch of work, and all that the Secretary can do here is to exercise a sort of general supervision. He should obtain figures from the Accountant from time to time with regard to the Purchases, Sales, and Expenses, as well as figures showing the progress or otherwise of profits, bad debts, total financial commitments and resources of the business. These figures are to be placed before the Board from time to time in order to keep them in close touch with the results.

### **Early Company Work and the Secretary.**

In connection with the early company work of a newly incorporated company it need only be added that the various incidents as to preparation of the prospectus, consideration of the applications, allotment of shares, filing of the various documents and forms, as well as the entries in the various subsidiary books regarding these, as discussed in the previous chapter, are to be attended to by the Secretary. He has also to attend to the Share Transfer work. Here it may be noted that in case of the death of a member or shareholder, a remark should be placed in the Register of

Members as to the death, and the name or names of the executors or administrators if any appointed. He should also call for the probate for inspection from the personal representative of the deceased and endorse on it the date of production. The executors or administrators acquire in law the right to transfer or transmit shares, and when transfers are made by them the Secretary should satisfy himself as to their legal status. Till that is done the shares should be allowed to stand on the Register of Members in the name of the deceased member. The Company Law forbids any notice of trust being entered on the Register. The Secretary should not therefore enter the name of the Executor or Trustee as such on the Register. If the Executor or the Trustee gets the shares transferred in his name in his personal capacity as a shareholder, the same may be done, as that course makes the Executor or Administrator personally liable for the obligations arising from such a holding. In case where shares are held by two or more parties as joint owners, the Secretary need only record the notice of death on satisfying himself on that head, as the survivors become the owners of the share on the death of a joint holder. In case, a shareholder dies abroad the Secretary should obtain a statutory declaration of death certified by the British Consul of the place where the death occurred. In case of the marriage of a female shareholder a written declaration of marriage duly signed, together with her married name should be obtained and noted on the Register of Members. In case of the lunacy of a shareholder, where a committee has been appointed, the order of the Court should be called for inspection and the fact noted on the Register. In case where a Joint Stock Company purchases shares

and wishes to be placed on the register of shareholders, the Secretary should ascertain from the Memorandum of such a Company whether the said Company has a right to purchase shares. In case of the insolvency of a shareholder, the Official Assignee or the Trustee in Insolvency should be called upon to produce the original order of appointment and on inspection a note should be made of it on the Register.

### **Preparation and Work *re.* Board Meetings.**

The Board Meetings of Directors may be held as frequently as the Directors may in their opinion think necessary and convenient to hold in the interests of the company. In this connection the Secretary should carefully study the Articles of Association of his own company and strictly follow the procedure laid down there. Proper notices as to the meetings should be sent to each and every Director, and in the case of Committee Meetings, to every member of the Committee. This is very important, as it has been held that failure to send such a notice to a single Director entitled to attend at such meetings will invalidate all business that is done or considered on that occasion. In some companies the practice is to fix certain dates, or weekdays, in advance on which the Board Meetings are to be held, whereas, in others the Secretary in consultation with the chairman fixes the same. To the notice convening the Board Meeting, a slip is frequently attached showing the date of the Meeting, as well as the name of the Director, which the Director concerned is requested to hand to the clerk at the entrance of the Board Room for convenience of recording his attendance, both in the Director's Attendance Book, and in the Board Minute Book. These Notices are made out in the following form :—

**Form of Notice of a Board Meeting.**

The Bombay Spinning and Weaving Company,  
Limited.

51, Hornby Road,  
Bombay, 15th April 1918.

Dear Sir,

I beg to inform you that a meeting of the Directors of the Company will be held at the Registered Offices of the Company on Monday the 22nd inst., at 5 p.m. (S.T.) when your presence is requested.

To—

Yours faithfully,

Sir Solomon Isaac Kt.

J. Fernandez,

The Reclamation,

Secretary.

BOMBAY.

The following business is to

be transacted :—

(1) General,

(2) Consideration of the

Report of Works committee

*re* proposed additions.

**The Agenda.**

The Secretary should next see that the Board Room is properly arranged on the date fixed for the meeting and all figures, documents, papers and books which are likely to be wanted for the purpose of the meeting are kept on a side table in proper order. He should prepare the Agenda *i.e.*, the list of business to be done at the meeting. The items on the Agenda should be

arranged in their order of importance, preferably in consultation with the Chairman or one of the most active Directors. This Agenda may be prepared on loose sheets of foolscap paper, a copy of each of which is placed in front of the seat of each of the Directors. The Chairman's copy as well as the one retained by the Secretary should have a wide margin on the left with sufficient space left between each item of the Agenda. This is done with a view to enable both these functionaries to take careful notes of the proceedings to which it refers in front of the appropriate item on the Agenda. The Secretary should take care not only to see that his own notes are ample but that the Chairman also takes down full notes of the proceedings. This is done with a view to enable the Secretary to produce the Chairman's notes when the minutes of the previous meetings come for confirmation, in case at the next meeting, any objection or doubt is raised by one of the Directors as to the accuracy of the record as taken down by the Secretary. The Secretary should preserve both his own as well as the Chairman's notes in a separate file after the fair minutes are written out in the Minute Book.

#### **Form of the Agenda.**

The Form of a Board Meeting Agenda varies according to the nature of the business which has to be placed before the Board at each Meeting as arising in the regular course of the career of the Company concerned. The first and the last item invariably recur in almost every Board Meeting Agenda except that of the first meeting *viz.*, "Read minutes of the previous meeting", and "Date of the next meeting". The Agenda of the first Board Meeting of a Joint Stock Company will appear in a form similar to the one given below:—

## AGENDA.

of

Board Meeting, Monday 15th April 1918 to be held at the Registered Offices of the Company.

1. Incorporation of the Company, Solicitor to report on same,
2. Election of Chairman and Directors,
3. Appointment of Officers, *viz.*, the Secretary, the Manager and the Accountant,
4. Approval of the draft prospectus and consideration of its issue,
5. Fixing of the date of the next Board Meeting.

The Agenda of a Board Meeting held right in the midst of the busy life of a successful Joint Stock Company will exhibit items as per the following form:—

## AGENDA.

of

Board Meeting, Monday 15th May 1918, to be held at the Registered Offices of the Company.

1. Minutes of the last Meeting
2. Bank Pass Book and Cash Account as prepared by the Accountant to be submitted for approval,
3. Trading Returns for the quarter as prepared by the General Manager to be submitted,
4. Resignation of Mr. Rodrigues, a Director, to be considered,
5. Report of the Transfer Committee to be submitted for adoption,



6. Correspondence *re* J. Dayabhai and Co's claim to be submitted for further directions,

7. Date of the next Meeting.

The following form of Agenda with notes of the Chairman or the Secretary, will explain how the Chairman's or Secretary's copies are prepared, also the form in which they would appear after the notes are written out:—

*The notes on minutes of a Meeting of Directors held on Thursday, the 10th February 1916 at 10, Hornby Road, Bombay.*

#### Agenda.

1. Registration of the Company. The Solicitor to report on it.

#### Decision.

The Solicitor reported that the Company was duly registered under the Companies' Act on 16th ultimo.

The certificate of Incorporation was ordered to be framed and hung up in the Directors' Board Room.

2. Election of Directors. |

The Solicitors produced resolution signed by all the signatories to the Memorandum electing the persons named as Directors *viz.* Sir Vithaldas Bhai Seth, Nawab Vikar-ul - Mulk, Khan Bahadur Kharshedji

Khersalla and the Hon. Mr. Bottle. Ordered that the said resolution be affixed to the first page of the Company's Minute Book.

3. Election of Chairman.

Sir Vithaldas Bhai Seth unanimously elected.

4. Quorum of Directors.

Resolved that two should be the quorum for transaction of business.

5. Bankers :—

Messrs. Bullion & Co., of Nagdevi Street, have intimated their willingness to act.

Messrs. Bullion & Co., of Nagdevi Street appointed.

6. Brokers :—

Produce letter from Messrs. Bhulabhai Amarchand & Co., of Share Bazaar, Bombay.

Messrs. Bhulabhai Amarchand & Co., of Share Bazaar appointed. Secretary instructed to notify them in writing that they must look to the Vendor for their brokerage as arranged.

7. Next Meeting :—

To fix the date of the next meeting.

The date of the next meeting was fixed for Thursday the 17th February 1916.

### The Minutes.

At the close of the meeting, or as soon after as possible, the Secretary should proceed to draft the "Minutes" of the Meeting. Great care has to be taken here to see that the draft represents as accurate a record as possible, because, when once passed and signed by the Chairman of the same or of the next succeeding meeting, the minutes shall constitute evidence of the proceedings. The Indian Companies Act (S. 83) lays down that "Every Company shall cause minutes of all proceedings of general meetings and of its directors to be entered in books kept for that purpose." It further enacts that "until the contrary is proved, every general meeting of the company or meeting of directors in respect of the proceedings whereof minutes have been so made shall be deemed to have been duly called and held, and all proceedings had thereat to have been duly had, and all appointments of directors or liquidators shall be deemed to be valid." The language of the section quoted here will impress the reader with the importance of seeing to the accuracy of the record. The law insists on at least one Minute Book being kept, though in actual practice it is found convenient to keep separate books not only for the Board and Shareholders' meetings respectively, but in cases where the Board is divided into committees, a separate minute book is maintained for each of the committees. The minute books should be made of faint ruled foolscap papers, with a broad margin on the left, and a alphabetical index at the beginning or the end. Each minute entered in these books is consecutively numbered, abbreviated in the margin and indexed. The minutes should be written in the order in which the business was dealt with

at the meeting. Minutes are written in various forms but the one which is the best to be followed is that which includes narration as well as conclusions. To make this clear it may be mentioned that minutes are divided roughly into two classes *viz.*, (1) Minutes of narration and (2) Minutes of conclusions. It is the practice with some draftsmen to record only conclusions in the form of the resolutions passed. This is hardly a course to be recommended even though this form of record may answer the legal requirement. What should be aimed at by a good draftsman is a complete narrative of what actually occurred at a meeting in a brief and compact form which takes note of all important items of the proceeding without making the same needlessly lengthy or cumbersome. If that is done no inconvenience or doubt is felt when, after a number of years, a reference to the record of proceedings at some prior meeting is necessitated. In short a good minute speaks for itself. It does not give rise to confusion. Even an outsider on perusal gets a full and complete idea as to what actually occurred at the meeting in question.

The minutes of each meeting should be kept separate and should commence on a fresh page. They should be headed with the number, date and nature (Board or Shareholder's meeting) of each meeting. The narration should then state in order what actually occurred which should be concluded with the actual resolution, if any, passed. This resolution should be recorded in full and in the exact wording in which the same was passed. The best course to be followed here is to request the person who proposes a resolution to hand the same over in writing to the chairman. This original writing should, when passed, be

copied in the minute book. In case of formal resolutions passed at Board and General meetings, the Secretary is frequently requested to draft the same out. Great care, skill and a good knowledge of the principles of Company Law and practice is required in this branch of secretarial work. In case of resolutions involving intricate questions of law such as those required to be passed in order to give effect to the alteration, reduction or re-organization of capital etc., the secretary should call for legal assistance. We shall now take up a few examples from the Agenda of the Board meeting given on page 153 and see how the minutes of the same are recorded.

### **The Minute Book.**

*The fifteenth meeting of the Board of Directors was held at the registered office of the company on Wednesday the 15th of May 1918, at 4 P. M. (S. T.)*

There were present :—

Mr. Dorab Saklat, in the chair  
Rao Saheb T. Rangnekar,  
Mr. William Inglis,  
Mr. Abdul Karim,

Directors.

In attendance :—

Mr. D. Bhabha, Secretary,  
Mr. Raghunath Rao, Accountant,  
Mr. Dobson, Manager,

65.

The minutes of the last meeting held on 2nd May 1918, were read, approved as correct and signed.

*Cash Statements*      The secretary produced the Bank  
*ways and means.*      Pass Book and a statement showing an  
 66.      abstract of cash receipts and payments during the fortnight ending on the 14th instant. It showed a balance at Bank of Rs. 20,000 and on hand of Rs. 1,250. The statement was duly checked and formally approved.

*Trading Re-*      The statement as to the Trading  
*turns.* 67.      returns was next submitted which showed a turnover of Rs. 80,000, during the fortnight. This as compared to the turnover of the immediately previous fortnight was in excess by Rs. 5,000, but showed a decline when compared to the corresponding fortnight of the three previous years. The manager explained that this was due to the shortage of stock on account of the war as well as of the general rise in prices. This explanation was considered satisfactory and returns were duly approved.

*Resignations* 68.      The resignation of Mr. Rodrigues, one of the Directors, dated 11th May 1918, was next submitted for consideration. It was suggested by Mr. Rangnekar that Mr. Rodrigues should be requested to reconsider the same. Mr. Dobson stated in reply that he had met Mr. Rodrigues

the same morning at the latter's residence with the same object but Mr. Rodrigues's decision was final, as he was acting on the advice of his physician, who had ordered a complete rest and a change for at least a year.

It was therefore Resolved:—that the resignation of Mr. Rodrigues, a director of this company, dated 11th May 1918, is hereby accepted by the Board with regret and is to take effect from this date. The Board however takes this opportunity to place on record its appreciation of the services of their colleague and wishes him complete recovery.

The secretary was directed to convey this expression of the Board's appreciation to Mr. Rodrigues.

*Report of Transfer Committee.*  
69.

The report of the Transfer Committee as per that Committee's minute book was next considered. It showed that applications were received for transfer of 50 Ordinary shares, from five shareholders all of which, except one from Mr. R. Jonathan, were duly accepted and the transfers given due effect to. It was unanimously resolved that the said report be adopted in full.

*Dayabhai & Co.'s claim* 70. The secretary next produced further correspondence regarding Messrs Dayabhai & Co., who insisted on claiming the full amount of Rs. 15,000, for the alleged breach of contract for the purchase of cotton on our part. The secretary was directed to write finally stating that the said claim was inadmissible.

*Next Meeting* 71. The next meeting was fixed to be held at the company's offices on the 1st June 1918.

Chairman's initials, D. S.

## Resolutions.

From the example just given it must have been noticed that the minutes need not necessarily be made up of resolutions in a stereotyped form. There are however cases where formal resolutions have to be drafted passed and recorded in the minute book, such as the resolutions appointing committees, making allotment of shares, making calls, issuing debentures, opening of bank accounts, declaring a dividend, appointing a manager of a branch office, etc. We have already remarked that these resolutions have to be drafted with great care, skill and precision. The following are a few specimen of such resolutions :—

### Allotment of Shares :—

RESOLVED :—That 50 shares of £ 5 each be and are hereby allotted to Mr. John Smith, in full acceptance of



his letter of application dated the 15th June 1915, and the Secretary be and is hereby instructed to send out letters of allotment in the usual form as approved by this Board.

**Appointment of a Committee for a particular purpose :—**

RESOLVED :—That a Committee made up of Messrs. Raghuji and Babaji the members of this Board be and is hereby appointed to investigate and report on the question of the desirability of opening a branch office in Poona and to report to this Board their opinion and recommendations on this question after investigation.

**Declaration of a Dividend :—**

RESOLVED :—That a dividend of Rs. 50 on each Preference Share, and of Rs. 10 on each Ordinary Share, be and is now declared out of the net profits of the Company's business for the twelve months ending 31st December 1915, being at the rate of 5 % p. a. on the Preference Shares and 10 % p. a. on the ordinary shares, and that such dividends to be paid to the existing members as on the Register of Shareholders on the 31st December 1915.

**Appointment of a Branch Manager :—**

RESOLVED :—That Mr. R. Simpson be and is hereby appointed a Branch of Manager of the Office of this Company in Surat, on a salary of Rs. 300 per month, for a period of three years commencing from 1st January 1916; and that Mr. Ramnant the Chairman and Director, and Mr. Handiman the Secretary, be and are hereby empowered to execute on behalf of the Company a Power of Attorney in favour of Mr. Simpson, the said Branch

Manager, in such form as the Company's legal advisers may deem necessary, to enable him to act in the capacity of the Branch Manager of Surat.

**Appointment of a Committee for General Purposes :—**

RESOLVED :—That a Committee of the following Directors *viz.*, Messrs. A. B. C. and D. be styled the "General Purposes Committee," and that a monthly Report of such Committee's proceedings be duly entered in a "General Purposes Committee Minute Book," to be specially provided for that purpose, and that such Reports, when duly approved by the Board, be considered as part of the Minutes of the Board, and read in conjunction therewith.

**Alteration of the name :—**

(1) RESOLVED :—That the name of the Company be altered from "the Bombay Cotton and Spinning Company Limited" to the "Bombay and Nagpore Spinning and Weaving Company Limited" and that the Local Government be communicated with for the purpose of obtaining their consent to such alteration.

**Conversion of Shares into Stock :—**

(2) RESOLVED :—That the Rs. 100,000, Ordinary Shares of Rs. 100 each now fully paid up be and are hereby converted into Ordinary Stock for Rs. 100,000, which shall be transferable on the usual transfer form in any sum of Rs. 100, or a multiple thereof.

**Increase of Capital :—**

(3) **RESOLVED :—**That the Capital of the Company be increased to Rs. 2,50,000, by the creation of 500 New Preference Shares of Rs. 100 each, to be called the New Preference Shares, and to confer on the holders thereof the right to a non-cumulative preferential dividend of 4% per annum on the Capital, for the time being paid up on such shares, to be paid out of the Profits of each year, and such Preference Shares to rank both as regards Capital and Dividend in priority to the original shares in the Capital of the Company.

**Alteration of Articles :—**

(4) **RESOLVED —**That the article No. 45 of the Articles of Association of the Company be altered by omitting the following words therefrom, namely :—

“ every half year ”

and substituting instead, the following words :—

“ at the end of every working year of the business.”

**Appointment of a Finance Committee :—**

**RESOLVED :—**That a finance committee consisting of three directors *viz.*, Messrs. A B & C, of which Mr. A shall be the chairman be and is hereby appointed to take effect from this day and to hold office for a period of six months from the date hereof; and that the secretary is hereby directed that all propositions relating to outlay or expenditure, immediate or prospective, as well as all financial statements such as abstracts or receipts and payments prepared periodically as may be fixed by the said committee, or any other financial arrangement whatsoever must be first submitted to the said finance committee to be reported upon, before placing same before the Board.

**Preparation and Work re Shareholder's Meeting.**

In the case of a newly incorporated company the first meeting for which a Secretary will have to prepare himself is the Statutory Meeting. This preparation principally consists of the drafting of a report called the Statutory Report.

In drafting a report it is always best to divide it under separate headings and to deal with each of these headings in separate paragraphs. We shall take first the Statutory Report which the Indian Companies Act 1913, Section 77, makes compulsory, (Section 65 of the English Companies Consolidation Act of 1908 being the corresponding section) and which has to be submitted to the shareholders of every Joint Stock Company limited by shares, ten days before the Statutory Meeting, to be held within six months of the Company's commencement of business. The items to be included in this report are the following :—

- (1) Total number of shares allotted distinguishing those paid for in Cash and those allotted as fully paid, together with particulars as to consideration for those allotted as fully or partly paid.
- (2) Total amount of Cash received on all these shares.
- (3) An abstract of Cash received from Shares and Debentures and of payments made thereout, and the balance in hand together with particulars with regard to same.
- (4) The estimated amount of Preliminary Expenses.

- (5) Names, Addresses and description of Directors, Auditors, Managers and Secretary of the Company.

### The Statutory Report.




The Heeramanek Spinning and Weaving Company, Ltd.  
Report.

Pursuant to Section 77 of the Indian Companies Act 1913.

(1) The total number of shares allotted is 2,000 of Rs. 1,000 each. Of this 500 are Founders' Shares allotted fully paid and 1,500 Ordinary Shares, of which 200 were paid to the Vendors in part payment of the purchase consideration as provided by the Agreement of 10th January 1914.

(2) The total amount of Cash received by the Company on the 1,300 Ordinary Shares is Rs. 6,50,000.

(3) The following is an abstract of the receipts and payments of the Company on Capital Account to the date of this Report.

<i>Receipts.</i>	<i>Payments.</i>
Ordinary Shares Applications and Allotments      Rs. 6,50,000-0-0	On account of Preliminary Expenses. Rs. 4,950-0-0
	On Account of Purchase to Vendors.      „    20,000-0-0
	Office Furniture...      „    5,000-0-0
	Machinery ...      Rs. 1,12,000-0-0
	Building ....      „    50,000-0-0
	Balance :—
	Bank of Bombay.
	Rs. 4,57,000-0-0
	In hand ...      „    1,050-0-0
<u>Rs. 6,50,000-0-0</u>	<u>Rs. 6,50,000-0-0</u>

(4) The Preliminary expenses of the Company are estimated at Rs. 10,000.

(5) The Names, addresses, and descriptions of the Directors, Auditors and Secretaries of the Company are the following:—

**I. Directors.**

RAJA SAHEB SHIVLAL NANCHAND, (Chairman).

*Address :—*Malabar Hill, Bombay.

SIR ROBERT MACKINLEY, (Baronet).

*Address :—*Colaba Bombay.

SIR BHOLABHAI NATHUCHAND, (Knight).

*Address :—*Bhuleshwar, Bombay.

CAWASJI M. INDOREWALA, Esq., (Merchant).

*Address :—*Grant Road, Bombay.

**II. Auditors.**

ROBERTSON & CHANDULAL, (Govt. Auditors).

*Address :—*Church Gate Street, Bombay.

**III. Secretary :—**

J. HARDWORK, Esqr.,

*Address :—*Wodehouse Road, Fort, Bombay.

We, the undersigned Directors of the abovenamed Company certify that the above Report is correct.

*Dated the 24th July 1914.*

SHIVLAL NANCHAND	}	<i>Directors.</i>
ROBERT MACKINLEY		
BHOLABHAI NATHUCHAND		
CAWASJI M. INDOREWALLA		

We hereby certify that the foregoing Report, so far as it relates to the Shares allotted by the Company and to the

Cash received in respect of the Shares, and to the receipts and payments of the Company on Capital Account is correct.

*Bombay, 25th July 1914.*      ROBERTSON & CHANDULAL,  
(Auditors).

### **Notice *re* Statutory Meeting.**

The Notice convening the Statutory meeting will have to be made out in a form similar to the one given below:—

#### **The Bombay Trading & Manufacturing Co., Limited. Notice of the Statutory Meeting.**

Notice is hereby given that the Statutory Meeting of the above company pursuant to Sec. 77 of the Indian Companies Act 1913 will be held at the Registered office of the Company at 15, Esplanade Road, Bombay, on Tuesday the 23rd April 1918.

By Order of the Board,

G. UMRIGAR,

*Bombay 10th April 1918.*

Secretary.

### **General or Annual Meeting.**

Subsequent to the Statutory Meeting all meetings may be divided into two classes viz., (1) The Annual General Meeting and (2) the Extraordinary General Meeting.

The Annual General Meeting has to be held once at least in every year and not more than fifteen months after the holding of the last preceding general meeting. The failure to hold this meeting makes every officer of the company liable to a fine. At this meeting the report on the company's affairs, and the final accounts and the balance

sheet duly certified, is generally to be laid before the meeting. The secretary has to see to the drafting of the annual report which has to be submitted at the Board Meeting for being settled before the same is sent to the printers. The chief object of this annual report of the Directors is to give the shareholders an idea, in the form of a short review, as to the work done by the company during the year covered by the report. Frequently an attempt is also made to forecast the prospects of the future year. In case the directors contemplate any extension of, or addition to the business, the same is frequently referred to in the report. The profits or losses made are also commented upon. In case of profits, the decision of the Directors as to their final disposal by way of bonus to the staff or shareholders, transfer to the Reserve Fund, wiping off of Preliminary Expenditure, provision for depreciation and division among shareholders by way of dividend, if any, is made known under appropriate headings. The retirement of one or more directors by rotation and their re-eligibility forms the subject of a separate paragraph.

The annual report may be either an exhaustive statement containing a masterly review of the situation, or a bare record of a few facts and figures jumbled together. It is hardly necessary to emphasise the fact that the latter form is the least desirable. It is the moral duty of Directors to take the shareholders in their confidence as far as the exigencies of the business permit and with due regard to its general interests. No one is likely to be so unreasonable as to insist on the disclosure of secrets which are likely to be made use of by the company's rivals in trade, but there is no reason why the reports of many of our leading



companies—particularly banking companies—should be so woefully wanting in general information. In fact the practice of serving out nothing more than bare figures, just enough to answer the requirement of law, under the grandiloquent title of “Annual Report,” has unfortunately become general, both in England and India, in connection with banking companies. Many authoritative writers have adversely commented on this state of affairs, but our Bank Directors seem to have treated this comment so far, as effusions of academic minds uninitiated in the Board Room secrets, within the sacred precincts of which alone an unerring decision could, according to them, be arrived at. On the other hand every student of banking and finance will admit that of all the reports, the annual report of a banking establishment should lend itself easily to a masterly review of the financial situation with which the bank in question had to cope during the year under review. Such an elaborate report would render the figure of profit and its proposed application clearer and more interesting to an average shareholder for whose benefit these Reports are supposed to be issued. It is to be regretted that a number of Trading and Manufacturing companies also seem to have adopted the practice of their banking colleagues with regard to the issuing of these so-called “short and simple” reports. The following three annual reports have been taken from actual practice. The first is the typical report of a Banking Company—which of course could have been amplified and improved. The second *viz.*, that of the Tata Iron and Steel Company Ltd., a Mining Company, to which attention is particularly invited as one which a number of our Indian Companies will do well to

imitate. For want of space a number of paragraphs of the most technical nature in connection with Iron Industry, have been omitted from this report. The report presents a masterly review, under appropriate headings, of the work actually done and the progress made during the year under consideration, besides giving the usual information as to profits, reserve fund, dividends etc. The outlook paragraph sums up the result with a forecast as to the future.

The third is the model report of a Textile Company.

Report of a Banking Company :—

NINETY-SEVENTH REPORT BY THE DIRECTORS

OF

THE PROVINCIAL BANK OF INDIA,

LIMITED.

The Directors beg to submit the General Balance Sheet and Profit and Loss Account of the Bank for the year ending 31st December last, duly audited.

The net profits for the year, after providing for all bad and doubtful debts, amount to £291,418 5s. 5d., and adding £92,995 13s. 4d., brought forward, the available total is £384,413 18s. 9d.

An ad interim dividend at the rate of 16 per cent per annum, free of Income Tax, was paid for the half year ending 30th June, amounting to £80,000. The Directors now recommend a further dividend at the same rate, and an addition of £25,000 to the Reserve Fund, raising it to £1,200,000. They propose to apply £76,273 15s., to writing down investments, including War Loan, to current prices, to write £10,000 off the House Property

Account, and to add £10,000 to the Officers' Pension Fund, leaving a balance of £103,140 3s. 9d. to be carried forward.

The following Directors retire on this occasion, but being eligible offer themselves for re-election :--

ROBERT GREEN, Esq., A. V. D. BURNS, Esq., and SIR JOHN P. THOMSON, Kt.

It will be necessary to elect Auditors. Messrs. ROBINS & Co., the retiring Auditors, offer themselves for re-election.

By order of the Board,

W. BOTHA,

*General Manager.*

## THE TATA IRON & STEEL COMPANY, LIMITED.

### DIRECTORS' REPORT FOR 1914-15.

The Directors beg to lay before you their Ninth Report together with the Audited Statement of Accounts for the year ending 30th June 1915.

#### Revenue.

The Company's net profit during the year ending 30th June 1915, amounted to Rs. 24,83,088-15-8 which with the sum brought forward from the last year's account, makes a total sum of Rs. 25,65,760-9-10.

The following sums amounting to Rs. 7,33,678-2-1 have been appropriated from the profit --

To Depreciation Fund Account ...	Rs. 5,00,000 0 0
„ Repairs and Renewals Account ...	„ 1,53,678 2 1
„ Furniture and Preliminary Expenses	
Account... ..	80,000 0 0

After making all these deductions, there remains a balance of profit of Rs. 18,32,082-7-9, out of which the Directors recommend a Dividend on Preference Shares for the twelve months ending 30th June 1915 at the rate of Rs. 8-12-3 net per share, that is, at six per cent, per annum less income-tax. This will amount to Rs. 4,36,000-11-3, and out of the balance of Rs. 13,96,081-12-6, the Directors recommend that Rs. 6-0-0 per share be paid as a Dividend at the rate of 8% per annum on the Ordinary Shares, *viz.*, Rs. 11,96,244, leaving a balance of Rs. 1,99,837,-12-6, and out of this balance the Directors recommend that Rs. 7-8-0 per share be paid as a Dividend at the rate of 25 per cent. per annum on the Deferred Shares, *viz.*, Rs. 1,68,750, leaving a balance of Rs. 31,087-12-6, which amount they recommend should be carried forward.

### **General.**

We stated in our last Report that a new General Manager had been appointed. The new Manager, Mr. B. R. S. arrived and took charge of the management at Sakchi at the end of November last.

The General Manager's report given below dealing, as it does, with the operation of the Plant during the year ending 30th June 1915 has confined itself to the progress made during the year in the various Departments. Your Directors have to inform you that your Works began making steel required for the manufacture of shells, etc., for military purposes from August last. Upto the date of this report, a large tonnage of such steel has been supplied to the various Workshops and Factories in India making shells for Government. Your Board feels sure that the shareholders of this Company will be gratified to learn that

their organization is co-operating with Government, in however small a measure, towards bringing the war to a successful termination.

In view of the great and increasing demand for the products of the Company such as steel rails, structural materials, etc., your Directors have sanctioned the installation of two New Open Hearth Furnaces, a pressed Steel Sleeper Plant, a cast iron Pipe Foundry and the consequent necessary extensions to the Power Plant, and the housing capacity for staff. Your Directors confidently anticipate that all these extensions leading to the increased and varied output of finished articles will contribute on the one hand to enhance materially the usefulness of your Works to the public and on the other to increased profits to the shareholders.

The General Manager of the Works sends the following report from Sakchi :—

“ Your Consulting Engineer, Mr. C. P. P. who left India in March 1914, returned in September, and remained until March 1915. Under his supervision economies were effected and outputs increased leading to a reduction in the cost of manufacture. He has also during this visit made plans for several desirable extensions and additions to the plant of the Company.

The difficulties of delivery and high freights on supplies due to the war have resulted in the production at your Works of several articles required for manufacture which were previously being imported, the most noteworthy of which are rolls and ingot moulds, so that you are now practically independent of foreign manufacturers as regards your necessary supply of these articles.

The sanction granted for the erection of a Press Steel Sleeper Plant and a Cast Iron Pipe Foundry will result in the increased consumption of your own pig iron and in placing you in a position to assist in supplying the demand for two additional kinds of finished product.

### Exploration.

Exploration for raw materials of various kinds was carried on under the direction of your Consulting Engineer.

The search Flourspar mentioned in last year's report was not successful, as no deposits of workable size were discovered, but the results in the case of other materials were satisfactory.

The exploration in Mayurbhanj State resulted in the location of eight deposits of Iron Ore within from 12 to 23 miles from the present mines, all being surface deposits which can be mined as easily and as cheaply as the Gurumaishini Ore. Test pits indicate the presence of about double the amount at the present mines and of at least equal quality. During the coming cold season permanent boundary marks will be put around these deposits and the exploration for additional Ore continued.

The work of proving and surveying the Magnesite deposits in the Mysore State has been going on; also deposits of both Iron Ore and Chrome Ore have been located in this State.

### Iron Ore.

During the year three gravity inclines were installed at the Gurumaishini mines, tracks levelled and relined and the entire work put on a satisfactory basis.

### Coal.

Your Bhelatand Colliery has raised during the last fiscal year about 43,400 tons of coal out of which it has furnished about 8,000 tons to the Sakchi Works. About 17,200 tons have been sold in the open market. The maximum monthly raising was about 4,850 tons; the average monthly raising was 3,600 tons.

The development of your Malkera-Choitodih Colliery is proceeding satisfactorily. The Colliery has raised about 63,900 tons of coal during the last fiscal year, out of which it has furnished about 38,900 tons for operation at Sakchi Works. About 4600 tons have been sold in the open market. The maximum monthly raising was about 8,000 tons; the average monthly raising was about 5,300 tons.

Coal received at the Works from outside sources excluding Bhelatand and Malkera-Choitodih Collieries was about 342,779 tons during the fiscal year, against 370,100 tons purchased from outside during the preceding year.

The consumption of coal by the Coke Ovens was 280,200 tons; by the Gas Producers 71,200 tons; by Boilers and Locomotive 38,500 tons.

### Manganese Ore.

The shipment of Manganese Ore to Sakchi Works from the Mines during the fiscal year was 5,354½ tons. The consumption of Manganese Ore by your Works was 8,085 tons; also 19,500 tons were sold for export.

During the year under review the following new mines were opened out, namely, Ghogara Nala and Ducco Hurki in February 1915, and Tandu Hurki in May 1915.

At your Panposh Quarries, the overburden was removed from an additional area of stone, a new haulage incline, air compressor and two Lancashire boilers installed and a crushing and screening plant nearly completed.

### **Shops.**

The Machine Shop and the Forge Shop were both enlarged and their equipment of tools increased. These together with minor improvements, have done a great deal towards cheapening the cost of both repairs and construction and have also rendered your works less dependent upon outside manufacturers.

### **Sales.**

Scarcity of shipping with consequent excessive freight rates has militated against both the sale and delivery of Pig Iron, but these conditions are slowly improving and prices advancing so that from present indications the coming year will bring much better results.

During the early part of the year the steel market was dull and prices low, but later both the demand and price improved rapidly, so that at the end of the financial year there were orders in your books taken at good prices.

### **Town of Sakchi.**

The Town Department has been re-organized and a system of leases for tenants instituted, resulting in an increased revenue and a better safeguarding of your land rights.

A thorough inspection was made by both your Sanitary Engineer and your Architect who, while pronouncing



the general conditions good, made certain recommendations for improvements, all of which have either been completed or are under way,

The Physical Laboratory and Police Thana mentioned in last year's report have been completed. The building started as a Court House was changed into a school house and called "The Mrs. P. Memorial School" in honour of the deceased wife of your Consulting Engineer, because of the great interest she had taken in the education of Indian children. Additional teachers have been engaged, furniture and equipment installed, the general condition of the school much improved, and a Committee appointed from among the Works' officials to look after the operation of the school.

The Tisco Institute, being considered well enough established to be self-supporting, was turned over to the Management of its own Members, subject to certain control on the part of the Company.

The general health of the town continued good, and no epidemic of any kind occurred. Our Hospital did very good work and a very large number of cases treated were of people unconnected with the Company's Works.

#### **Labour.**

The daily average number of employees was:—7,899 men and women.

The number of European covenanted hands is 121 and the number of local European employees is 53. The balance of labour is Indian.

In addition to the labour employed at Sakchi mentioned above, your Company gives employment to approxi-

mately 1,881 labourers at Gurumaishini, 1,007 at Panposh; and 2,079 at Malkera-Choitodih and Bhelatand collieries.

The above figures do not include the Employees of the Contractors engaged in the work of improvements or extensions.

The reduction in the number of European Employees means the substitution of an equivalent amount of Indian labor and the average reduction of employees at the Steel Works is particularly noticeable in view of the increased output and the large amount of improvements and extensions during the year.

There is a marked reduction of employees at the ore mines and quarries, the former of which produced a greater tonnage than during the preceding year. The increased force at the collieries is due to the development work and the larger output.

### **Contemplated Betterments.**

Recently, the Board has sanctioned the expenditure necessary to add two more Open Hearth furnaces which would increase the capacity of your Steel Works by about 60% for the consequent additional electric power and for additional housing capacity for workmen, the two latter items being necessary if the new furnaces are installed. No further expenditure will be required at your Rolling Mills to finish the additional steel produced, so that the output of finished material would be increased from 50 to 60 % with a capital expenditure for steel making apparatus only.

The ruling high price for ferro-manganese has led to investigations as to the advisability of your manufacturing it from your own Manganese Ore, and one of your existing

blast furnaces will be put on manufacture of ferro for some months both for your own use and for sale. Should the investigation now being carried on in regard to the manufacture of this material by an ordinary blast furnace or a special electric furnace at the Manganese mines or by an electric furnace at the Steel Works, (which furnace would also make ferro-silicon) prove any of these methods to be better, the necessary equipment could be installed at a later date for the continuous manufacture of ferro-manganese.

### Outlook.

Last year, with the exception of the Coke ovens and quarries, the output of every Department of your Works both raw material and finished product, was the best so far obtained and the costs of all these materials were lower than during any previous year in spite of labor conditions in your Open Hearth, certain increases in wages and the almost universal increase in the cost of purchased raw materials and supplies. These results, the increased output of pig iron which will follow the completion of the Koppers Coke Ovens, the addition of a Pressed Steel Sleeper Plant, the Cast Iron Pipe Foundry and the Open Hearth addition together with the exceedingly large supplies of raw material in your possession certainly point to a bright future for your enterprise."

### Miscellaneous.

During the year under Report, Mr. R. was appointed a Director in place of Mr. R. D. who proceeded to Europe. Mr. R's. appointment will have to be confirmed by the Shareholders.

In accordance with Article 106 of the Company's Articles of Association, two of your Directors, namely,

Mr. G. and the Hon'ble Sir F. retire by rotation but are eligible for re-election and offer themselves accordingly.

The Shareholders will be requested to elect their Auditors for the current year and to fix their remuneration.

(Sd.) D. J.

*Bombay, 21st October 1915.*

*Chairman.*

A specimen of a good report in connection with the Textile Industry :—

## **The Mills, Co., Limited.**

### **DIRECTORS' REPORT.**

The Directors beg to lay before the Shareholders their Report with audited Balance Sheet for the year 1917.

In spite of all efforts the Mills could not be set working earlier than the 9th July 1917, owing to the difficulties encountered in obtaining deliveries of machinery from England. At the start the number of machines received and erected was not large, but it was thought advisable to commence working even with the small number on hand, and to go on increasing them as further deliveries were received. The total number of machines worked by the end of the year was thus brought up to about 14,000 Spindles and 750 Looms, while at the time of writing the Report, the total Looms on hand number 1,100 out of which it is hoped to work shortly at least 1,000. The reason why all the Looms received could not be worked, was that the supplies of machinery for the Spinning Department were very inadequate. To

supplement these, some second-hand machines were purchased locally, and the production of yarns was also further increased by working the Ring Frames day and night. Recently, however, 16 more Ring Frames have been got ready by the makers, and a few second hand ones have also been purchased from upcountry, and when these are all received and erected, they will go a long way to overcome the difficulty experienced in yarn shortage. It will thus be seen that no efforts are being spared to bring up the plant to the capacity originally contemplated, as far as the present abnormal circumstances allow.

As regards the Dye & Bleach Houses, some machines have already been set working, but a few more are still wanting for the satisfactory working of these departments.

Owing to the shortage of spinning machinery no yarns could be spared for sale. The cloth turned out, both grey and bleached, has been favourably received in the local and upcountry markets.

The working of the Mills at the end of the period under report has resulted in a profit of Rs. 87,598-8-7, out of which Rs. 72,280-6-6, have been set off against preliminary charges, and the balance, *viz.*, Rs. 15,318-2-1, is carried forward to the next year's account.

An additional plot of land forming the frontage of the Mill grounds has also been acquired on lease, since the date of the last Report. This plot contains some buildings also which will be utilized for providing the necessary quarters for the Company's staff. For the benefit of the workmen a school for half-timers, dispensary, and grain shop have been opened on the Mill premises.

The balance of Rs. 100 on each of the Ordinary and Preference shares was called up by 2 instalments of Rs. 50 each on the 16th July and 16th November 1917 respectively, and all the shares issued have now become fully paid.

As in former years, the Shareholders are requested to pass a resolution for the payment from Capital of interest when due on Preference shares for the 12 months ending 30th June 1918, at 4% per annum.

Two of the Directors, *viz.*, The Hon. Mr. A. B. and Mr. C. D. retire from the Board in accordance with Article 109, but they are eligible for re-election, and offer themselves accordingly.

The Company's buildings, machinery and stocks have been insured for Rs. 32,50,000.

The Shareholders will have to appoint Auditors for the current year, and fix their remuneration.

I. J., *Agent.*

E. F.,

C. D., *Director.*

*Chairman.*

G. H.,

*Director.*

*Bombay, 10th March 1918.*

### **Committee Reports.**

We have already noticed that the executive functions of the Board are frequently, in the interests of efficiency as well as on grounds of convenience, divided and allocated to different committees appointed from among the Directors. The reports presented by these committees are generally drafted for them by the Secretary. In cases of standing committees this work does not present any

difficulty, as the minutes of each of these committees are generally treated as their report by the Board which are formally confirmed. In case however of special committees appointed for the purpose of investigation and report on certain questions, the report has to be drafted with considerable care and ingenuity. The language should be clear and easy, the style argumentative, and the facts stated in their logical sequence under appropriate headings. The following form may well be taken as appropriate :—

Report of a Special Committee of Directors, appointed to investigate and report on the desirability of opening a Branch at Madras for the Sale of the Manufactures of the Company as per the terms of resolution passed at the Meeting of the Directors of the Company held on 24th August 1916.

*Resolved :— That a Committee of Directors be appointed consisting of Messrs. A. B. C. and D., of which Mr. A. is to act as the Chairman, to consider and report on the question of opening a branch office in Madras, in view of the increased demand of the manufactures of this Company from that side. The Committee is authorised to investigate this question fully and for that purpose the Members of the Committee are hereby authorised to proceed to Madras for detailed and direct investigation.*

#### **Present Position.**

The average yearly sale of our manufactures in the Madras Presidency for the past five years are computed at

Rs. 10,00,000. The figure of sales has shown a tendency to increase during the past two years. It is however noticed that a large number of claims, and complaints arise, which could be more conveniently dealt with on the spot if we had our own managers there. We have also continually received an increasingly large number of letters from would be buyers who have repeatedly expressed their regret at our not having a branch office on their side with which they could deal direct to greater mutual advantage.

#### **Inquiries made.**

The Committee met fifteen times during the last four months in Bombay and carefully weighed and considered the whole correspondence on the subject placed before them by the Secretary. They also interviewed various dealers and their representatives in Bombay. Two of the Members of the Committee *viz.*, Messrs. A. and B., were deputed to proceed to Madras, who visited fifteen dealers in the Presidency, whose names are given in the Schedule attached herewith and marked A. The majority of these dealers were of opinion that a branch office for the Presidency in a central place like Madras, and preferably at Mount Road, exhibiting the various articles of our manufactures would result in doubling our sales within a year. It was also urged that this step would lead to the alteration of patterns and styles suitable to the special requirements of buyers in the Madras Presidency. It was also the opinion of almost all the parties interviewed that the present arrangement which forces the Company to deal through agents was quite unsatisfactory.



It is also ascertained that the Company is paying yearly Rs. 15,000 to Rs. 20,000 by way of commissions to agents which amount in the opinion of the Committee could be entirely saved if a branch office were to be established in Madras.

The ultimate expenditure on the Branch Establishment would come to about Rs. 6,000 a year as per the Schedule of estimate attached to this report and marked B.

### Findings.

The Committee after a careful consideration of all the facts laid before it during its investigation extending over a period of two months, presents the following recommendations to the Board :—

(1) That a Branch office be opened in Madras in one of the Buildings belonging to Nawab Salemahommed, situated at No. 25 Mount Road.

(2) That the estimated yearly expenditure of Rs. 6,000, would be more then compensated for by the saving of yearly commission paid to agents.

(3) That the sale would undoubtedly increase if such a branch were to be located in Madras.

(4) That if their recommendations are accepted, a branch should be opened without loss of time and preferably before the beginning of the next season.

*Bombay, 29th October 1916.*

A

B

C

D

Members of the Committee.

Besides the two reports as dealt with above, reports have to be drafted on behalf of Special Committees appointed for various purposes either by the general body or by the Board. The Committees may be (1) The Finance Committee, (2) The Standing Committee, or (3) The Committees for investigation and report on some specified object.

The Finance Committee elected annually is to control the Financial Operations of the Company or Association such as, making arrangements with Banks for Loans and Credit, sanction of various expenditure and investigation of same, and generally, to look after the Financial Side of the Company's business. This Committee is generally appointed yearly or half-yearly and it reports periodically on all operations during its period of appointment. This report would be made out from the Committee's Special Minute book known as "The Finance Committee's Minute Book."

## **The Departmental Managers.**

### **Their Selection.**

The Departmental Managers are selected either from the older members of the staff who have specialised in the class of work they are expected to do, or failing that, an entire outsider may be brought in on account of his experience, or training. We have already dealt with the importance of giving the most deserving members of the staff the first chance or preference, provided they are as capable as any outsider who is likely to fill up the place. In this regard, neither the seniority of an employee nor other sentimental reasons should form a criterion. Capacity and training alone should form a guide. The object should be

to find the best suited incumbent for the post, and in case the same is not to be found from among the staff, he should be brought from outside. If however there are men on the staff equally capable, it is not only highly unjust to pass them over, but it strikes a deadly blow at the efficiency of the organization. It may perhaps be the case that a younger man on the staff, by reason of his training and special aptitude has proved to be the most deserving. If so, there should be no hesitation in selecting him. The seniority of the members of the staff over whose head he has to pass should not deter the Directors from taking that course. Mr. George Rae, who speaks with the authority of a man who has had an experience of forty years in connection with one of the largest Country Banks of England, says in his excellent book entitled 'The Country Banker.' "The Law of Seniority requires no thought and no supervision; it is self-acting. It reduces promotion to a question not of merit, but of mortality among the seniors. It robs the service of all interest, except in the dead men's shoes. If promotion is not to be the reward of active brains and willing hands, why disquiet themselves in vain? and why ought we the lookers on, to feel surprised at the do-nothing apathy, and the official insolence, which are too often the outcome of the system?"....."Other things being equal, the officer of senior standing has the prior claim to advancement; but if other things are not equal, if he has allowed a junior in the service to outstrip him in the race for distinction, it is but just that the better man, although the younger, should take the better place. This may seem hard on the less capable amongst the officers; but any other course would be still harder upon the Bank. It is bound to place its

ablest hands where ability is wanted; and ability does not always ripen with the years."

### **Their work and duties.**

Having selected the Departmental Managers on the ground of their technical knowledge, or experience in the branch of work assigned to the department concerned, it is best to work on the principle of divided responsibility. The departmental manager should, as far as possible, be left free to direct the work of his department within a certain laid down area and the best course is to throw as much responsibility on him as possible for the successful working of his department. The general line along which the business is to be carried on has no doubt to be decided upon by the Board of Directors, in consultation with the general manager, about which the departmental manager receives instructions from time to time. He is frequently consulted by the General Manager with regard to the technicalities of his department and his opinion is no doubt considered by the Board while deciding on a new policy. When however a line is laid down, he has to loyally carry out his instructions along that line, whatever his personal opinion may be. He stands here on the footing of the member of a military organization who has to carry out the command of his superior officers without hesitation or argument. Within the radius of his own jurisdiction however, a wide discretion is generally left to him in all well regulated concerns, where the opportunities for making use of his technical knowledge, as well as original efforts, may be utilised to the best advantage of the enterprise.

Mr. Cadbury, the head of the famous chocolate manufacturing enterprise, describes the system in use in

his office in a book written by him entitled "Experiments in Industrial Organization" as follows :—

"At the centre is the Board of Directors, who discuss and settle all general problems connected with every part of the business, while each director specializes on some one or two departments, and by means of committee or staff organization, keeps himself in the closest touch with the details as well as the general problems of his department. Thus one director deals with buying, another with advertisements, and others with sales, costs, men's departments women's departments, etc. Each department has its own staff, many of them specialists, whose business it is to know, and to supervise, or carry out, their special duties, while at the same time, they are kept in the closest touch with the general policy and problems of their departments, by the committee meeting of their staff or department. In each case, the director is chairman of the committee, so that he is fully aware of the details of his department, while as a member of the Board of Directors he represents that department and controls its relation to the general business. He brings to the Board of Directors any proposals emanating from his committee or department, and on the other hand, takes to his committee for consideration and discussion the various matters that are referred to them before being carried out. In this way, all the available knowledge of the Firm as a whole, can be brought to bear on any point of detail or difficulty when required, and no case of difficulty or dislocation can arise without its coming to the knowledge of the Board of Directors."

It will be noticed from the above brief sketch that the Board of Directors of Messrs. Cadbury is not a mere ornamental body of titled gentlemen, but is one constituted

on the lines indicated in the previous chapters of this little book. It is made up of businessmen who are not only able to take an actual working part in the inner organization of the enterprise, but who actually devote a large portion of their time and labour in this direction. They actually make themselves responsible for the supervision of one or more departments, keep themselves in close touch with the personal working of that department, encourage exchange of ideas and suggestions, and so to say, act as intermediaries between the Board of Directors as a body and the individual departmental officials concerned. A board consisting of such practical and sincere workers can no doubt manage the largest enterprise entrusted to it with great efficiency. Here each member of the body is in close personal touch with a certain branch of its organization. This does not leave a dishonest manager or secretary much room for his activity. On the contrary the organization of efficient direction is simplified through the presence of a set of men on the board able to grasp the most intricate business problems laid before them, and the very knowledge that the board comprises of men in personal touch with every detail, who are ready to sympathetically consider any suggestion even from the humblest departmental head, is in itself a factor which is bound to carry considerable moral force and to stimulate effort as well as efficiency in this quarter.

Suggestions from departmental managers and assistants on the question of improvement, either of the system in force or on the methods of manufacture, should not only be invited but encouraged. Each suggestion should be considered by the directors with

due regard, and should not only be taken up whenever found advantageous, but its author duly rewarded. Thus a close co-operation on part of the component parts of the whole machinery may be brought about from first to last to the advantage of all.

### **Employees in various Departments.**

#### **Their selection.**

We have already noticed the advantage of selection on the basis of ability and experience, as opposed to selection which primarily rests on racial or sentimental considerations. In case of Junior Clerks and assistants all that need be said is that preference should be shown to young men of suitable education and good health. Many large institutions in Europe and America insist on medical examination of candidates for employment at the time of their selection with a view to test their efficiency. Their education is tested thereafter by a departmental examination. Frequently, children of old employees are given the first chance—provided they are equally qualified—and thus the tradition of loyal and efficient service for the institution is fostered and encouraged in each employee's family circle.

#### **General organization *re* Employees.**

Proper provision for recreation and training of Junior members of the staff should also engage the attention of the heads of a well organized enterprise. As far as possible, efforts should be made to create a permanent interest among the employees in the institution in whose service they happen to be engaged by providing a properly graded scheme of promotions for the most deserving, carrying adequate salaries and attractive

pension or provident fund arrangement. In the words of Mr. George Rae, from whose excellent book "The Country Banker" we have already quoted, "An Institution cannot give high salaries to all its officers; but if its highest offices are open to every one in its employment who shall prove his fitness for the same, there will be no apathy in its staff. It will be the object of every one to devote his best abilities to the practice and study of his profession, and thus an able, zealous and loyal staff will be developed."

Besides, the highest ideal of discipline should always be maintained and kept in the forefront. The old methods of fines and penalties are now-a-days generally done away with and what is now attempted is to maintain records as to instances of irregularities or insubordination. This work should not be left in charge of subordinate officers, as that is likely to turn them into petty tyrants, besides giving rise to extortion and other evil practices. The subordinate officer should be asked to report to the general manager any case of irregularity, inattention, or disobedience, which ought to be investigated as far as possible by the latter and on being entirely satisfied as to the commission of the offence, the same may be recorded in a book or card maintained for the purpose. This record should be revised at fixed intervals, and in case of subsequent good conduct, or efficient service, the old adverse record should be wiped off. On the same basis the record of efficient and sincere service should also be maintained. At the time of considering promotions the Board thus finds a ready medium for guidance. At the same time this method has a more salient effect in maintaining discipline, than that of occasional fines which are soon forgotten and lost sight of. This also affords a proper guide when a persistent offender has to be forced to retire.



## CHAPTER VIII.

**Procedure at and Conduct of Meetings.****Importance of a general grasp of its principles.**

In these days of huge business establishments run on the principles of combination in one form or another, procedure and conduct of business at meetings forms a special branch of study for every student of "Business Organization." From a small private limited company, to a huge joint stock company working a railway, a mine, or a cluster of gigantic mills and factories, every step in the organization, control and direction of the same is dotted with meetings in one form or another, where our modern businessman may be called upon to exercise not only the virtue of patience and tolerance to the views of others, however opposed they happen to be to those of his own; but he has also to display a thorough grasp of the principles on which the procedure followed at such gatherings is based. Whether he attends the meeting in the modest garb of one of its members, or under the dignified designation of the Chairman or in the person of that industrious servant of the institution, the Secretary, he cannot feel himself at ease if his knowledge as to the rules and regulations governing the conduct of such an assembly were indifferent. Meetings held by various bodies and associations such as Corporations, Legislative Assemblies, Parliaments, etc., are those with which the modern businessman is brought in contact in one capacity or another, but those with which he is most closely interested are the Board and General Meetings of joint stock companies. In

case of joint stock companies a good portion of the procedure depends no doubt on its constitution and bye-laws, but the general rules of debate are more or less uniform and of general application with which we shall deal fully in the course of this chapter. The principle on which a joint stock company is worked is the principle of the conduct of its business as per the wishes of the general body of its members as expressed by the voting majority, within the scope laid down by its Memorandum and Articles of Association in particular and as governed by the Company Law in general. Every member and officer of such an institution should therefore possess a good knowledge of the cardinal principles which govern the conduct of every meeting in which he aspires to take an active part, in order to be able to help those in authority to arrive at correct decisions, and should prevent that object from being defeated through the breaking up of assemblies in confusion and chaos by that irresponsible element which is frequently in evidence at such gatherings, particularly where some heated question is likely to be discussed. In the case of a joint stock company, the meetings are convened as per requirements of the Company Law, and therefore, not only is a qualified member entitled to be present at such a meeting, but is in fact under more or less an obligation to attend same. We have already seen how regrettably indifferent the average shareholder is with regard to the meetings usually convened in connection with companies in which he holds shares, but it is hoped that the shareholder of the future will, with better appreciation of the principles underlying a joint stock company combination exhibit greater interest in this regard.

## The Chairman.

### His election.

The first business of every meeting is to elect a Chairman unless, as in the case of a joint stock company, there is a more or less permanent Chairman, who if present, takes the chair as of right. If however neither the Chairman nor the Vice-Chairman is present and the meeting is composed of persons with equal right to preside, they will have to elect a Chairman. This is done by any one present proposing the name of one of the members present which proposal if seconded may be put to vote. In case more than one name be proposed and seconded, they may all be put to vote simultaneously and the person securing the largest number of votes takes the chair.

### Necessary Qualifications.

The person selected to act at any meeting as a Chairman should be a person possessed of infinite tact. He should be patient, impartial, methodical, logical, firm without being autocratic, good tempered and preferably one who brings with him a special knowledge of the business which is to be disposed of at the meeting. In the words of Mr. Gordon Palin, in his book entitled "Chairman's Manual," "A man without any method of habit who cannot, at least on occasions, be judicial and un-biassed; whose mental make-up lacks logic; who cannot think and decide pretty quickly; who is not fortified by knowledge of procedure and who cannot express himself well, should not voluntarily take the chair on any occasion, or, if he does, should see that there is a back-exit handy; it may be useful." The same author however adds that "But there is not one of these short-comings

which may not be largely remedied by assiduous study and practice. Industry and self-training quickly impress the seal of superiority; but he who must avoid this must remain out of the crowd." It will thus be seen that good Chairmen are generally made and not born. Of course there are men—though rare—who by the force of personality and the prestige of their general reputation, can keep a large meeting in control, even when the most delicate questions are at issue, the general run of Chairmen as a class is made up of men who are self-made and who owe their position of eminence to persevering hard work. The only idea that should supervene in the mind of the Chairman all throughout the meeting is to see its business transacted in as orderly and expeditious a manner as possible. In the words of Mr. Albert Crew in his book entitled "Procedure at Meetings" "The Chairman should remember that men at the meetings are often but children of a larger (sometimes not much larger) growth, and should combat their petulance, unreasonableness, and pettiness by common sense sweet reasonableness and quiet determination. He must believe in himself, but not allow his masterfulness to obtrude too much.'

### **Chairman's Power and Duties.**

The first duty of the Chairman is to see that the meeting is properly conducted and that order is preserved all throughout. He should next see that the quorum is present and all present have a right to do so. He should see that the points discussed at the meeting are brought forward in their proper order, that every one present is given a fair opportunity to be heard on the question that is before the meeting and that none except the mover of a pro-

position is allowed a second speech, except by way of a brief explanation. It is the Chairman who puts all motions, resolutions and amendments to vote and it is he who declares the result. He ought never to lose sight of the fact that the object of every meeting is to ascertain the opinion of the majority, as per the voting powers of each individual present, which opinion is expressed through the passing or rejection of the resolutions and amendments placed before the assembly. The first business of every meeting is to call upon the Secretary to read the notice convening the meeting, and the minutes of the last meeting are generally read and confirmed by the meeting and signed by the Chairman. The Chairman should next address the meeting with a view to explain the object of the meeting. In case of joint stock companies, the Chairman explains the report (in case of annual general meetings) and reviews the work done during the period covered by same. In other cases the Chairman generally opens the proceeding with appropriate remarks as to the business for which the meeting has been convened.

We have already noted that the Chairman has the right to enforce order. In case a person present behaves in a disorderly manner the Chairman has the right to order him to behave himself, or else to withdraw, and in case the person persists in the misbehaviour he may be forcibly ejected. In case of ejection no more force should be used than what is actually necessary. When however the Chairman finds that it is impossible to maintain order, he has the right to adjourn the meeting. With regard to this it may be noted that the Chairman's right to adjourn a meeting depends largely on the constitution of the company or the association whose meeting he happens to preside

over. If the constitution does not provide for such powers the Chairman cannot adjourn the meeting until the business is done without the consent of the members present. *Chitty, J., in National Dwelling Society v. Sykes, 1894, 3 Ch. 159* laid down as follows, "In my opinion the power which has been contended for, is not within the scope of the authority of the Chairman—namely, to stop the meeting at his own will and pleasure." He has the right to decide all points of order raised by any member present and his rulings on points of procedure are final. It was also laid down by *Lopes, L. J., in Henderson v. Bank of Australasia* that when a Chairman deliberately rules that a certain amendment cannot be put, it would be improper and indecent for any shareholder to proceed to discuss the propriety of the Chairman's ruling.

The Chairman has the right of voting according to his qualification *i. e.*, according to the regulations of the body whose meeting he is presiding over, and where, the votes are equal on either side on any question before the meeting, he has, in his capacity as a Chairman what is called a "casting vote" by the use of which he may help the meeting to arrive at a decision. It will thus be seen that the Chairman has generally two rights of vote *viz.*, (1) his deliberative vote, which he gives in his capacity as a member of the body, and (2) the casting vote, which he gives in case there is a tie. The first named right has been conceded on the ground that otherwise a person with a good voting power may be conveniently got rid of by being placed in the chair. It would be a great hardship indeed in case a large shareholder who also happens to be the Chairman of a company, were to be prevented from voting on a question on which he is

vitaly interested, because he happened to occupy the chair, and thus a resolution were to be carried, or lost, contrary to his wishes, which eventually could easily have been prevented through the use of his votes.

In case of interruptions, the Chairman no doubt has the remedy open to him of calling the offenders to order and in the last resort of removing them from the meeting. Many a Chairman has however found that a little tact, or a slight touch of humour, has frequently greater effect in bringing a troublesome person to order. Mr. Gordon Palin relates an incident from his own experience which occurred at a meeting he was presiding over in his book from which we have already quoted. He says, "I once had a buffoon whose fancy that night was to stand on his chair—a fruitful cause of disorder not so much from the antic itself, as from the vocal, attention it attracts. however, announcing that the gentleman might (if that was his mood) listen to the speeches in that posture, tranquillity was restored, and a sense of the ridiculous soon melted the clown down into his seat".

The Chairman should also see that no discussion is allowed until there is some duly proposed and seconded motion or proposition before the meeting, as otherwise, the meeting may indefinitely keep on talking irrelevant matters without arriving at a decision. Any one present who sees such an irregularity in practice at a meeting may rise to a point of order on the ground that there was no question before the meeting.

### **Passing of the Minutes.**

We have already noticed that the Chairman has to get the minutes of the previous meeting read out and con-

firmed by the meeting. This is done with a view to ascertain if the record of minutes of the previous meeting, as made out by the Secretary, is accurate. When votes are called for, only those who were present at the meeting of which the minutes purport to form a record, have a right to vote, as those who were absent at such a meeting cannot claim any personal knowledge as to the proceedings in question. In case the majority are in favour of the minutes being accepted as accurate, the Chairman should sign the same. In case any member present raises an objection and wishes some part of the record to be altered, he should move an amendment to that effect. This amendment should be seconded and put to vote in the usual form. If passed, the Chairman should instruct the Secretary to give effect to the correction as indicated by the amendment.

## Propositions and Amendments.

### The form in which they are moved.

After the preliminaries are gone into, the Chairman may call upon the person, if any, on whose name any proposition as per the agenda stands, to move the same. Failing that, any one present may voluntarily rise to move a proposition and on his desiring to do so the Chairman should announce that fact with the name of the person concerned. In case of these propositions, and particularly in case of amendments, the rule to be followed is to get these in writing from those proposing, together with their signatures at the foot. A motion must always be framed in an affirmative form. A motion which is not seconded should be dropped and no note of it need be taken in the



minutes. But on the other hand once a motion is proposed and seconded, it becomes the property of the meeting, and neither the proposer nor the seconder has a right to withdraw the same without the unanimous consent of the meeting. The mover of a proposition, who does not find any one to second the same, has no right to speak on it. To this rule there is no exception. If a motion in the form in which it is offered is too lengthy and the Chairman is of opinion that it should be divided into two or more parts for simplicity, he has the power to do so. A motion which has been duly proposed, seconded and lost, or any amendment on it which has shared the same fate, cannot be brought in again for at least three to six months as per the regulations of most of the joint stock companies and other public bodies. The mover alone has the right of second speech and there too he has to restrict himself to the points raised in course of the discussion.

### **Moving of an Amendment.**

After a motion has been proposed and seconded, any one present may move an amendment. The amendments like the motion should also be framed in the affirmative form. They must also be relevant to the original question embraced by the proposition which is sought to be amended. They must not make the original question unintelligible. Amendments may be put without notice unless the regulations of the body concerned provide for a previous notice. The amendment may be moved with a view either to "omit" certain words from the proposition, or to "add" or "substitute" them. A direct negative is not a legitimate amendment and should not be allowed. The party offering such a negative can attain his object by voting

against the proposition. The person seconding a motion, or an amendment, need not speak on it immediately after the proposer, but may do so at any time before the same is put to vote. As a general rule, more than one amendment cannot be moved on the same motion by the same person, unless the special regulations of the body concerned admit of such a procedure. An amendment may be moved on an amendment. When an amendment is proposed and seconded and all have spoken on it, the Chairman puts it to the meeting for vote. If lost, the original motion is taken in hand. If on the other hand the amendment is passed, the original motion, as altered by the amendment, is taken up and put to the meeting as a substantive motion.

### **The Closure.**

It frequently happens that the discussion on any motion or amendment drags on and becomes lengthy. If any one present thinks that the mind of the meeting is made up, and that the motion should now be put to vote without any further waste of time, he may do so by proposing to the effect that "the question be now put to vote". If seconded, the Chairman should put it to vote, and if carried, no further discussion on the original proposition, or the amendment on which the closure was proposed and passed, should be allowed. The question has to be put to the meeting immediately and the result announced. This is of course quite distinct from the Chairman's right of warning a member who is addressing a meeting on any question if he takes up needless time in idle repetitions, or irrelevant talk, and of eventually asking him to resume his seat. If however the motion for closure is lost the discussion must proceed.

### **The Previous Question.**

When a proposition is moved and seconded, which in the opinion of some is one which it is unwise to discuss in the general interests of the body, or from the discussion of which no good is likely to result, any one may move what is called the "Previous Question." The latest method of wording this proposition is "That this question be not now put". As soon as seconded, the Chairman should put it to the meeting as it takes precedence of all other motions. No amendment is allowed on this "previous question" though it may be discussed, nor can it be superseded by a motion for adjournment. The "previous question" should be put, either when the original proposition is before the meeting for discussion, or after the amendment is passed and the amended motion is put before the meeting as a substantive motion. It cannot be put during the course of the discussion of the amendment itself. The mover of this question has no right of reply.

### **The rules of debate.**

The Chairman has no doubt a discretion to decide as to the order in which the speakers at a meeting are to be heard. If two persons rise to speak, the Chairman may call upon the one who rose first to address the meeting. If they rose to speak simultaneously the Chairman may decide as to who should first address the meeting. This right of the Chairman is subject to the connivance of the meeting. If however the majority at a meeting express a desire to hear a particular person first, the Chairman must bow to their wishes,

Every speaker at a meeting should address the chair and should keep standing while doing so. While so addressing he should not call the Chairman by name but should style him "Mr. Chairman." The person addressing should speak out his remarks, as reading from manuscripts may be objected to by the meeting. The language used must be courteous and should not be offensive or personal. Unnecessary repetition must be avoided. Except in Committee meetings no one has the right of a second speech except a mover of the proposition. If any one present finds that anything irregular is being done or any objectionable language or a personal remark is being made, he may rise to interrupt the speaker with the remark "Mr. Chairman, I am very sorry to have to interrupt, but I must rise to a point of order etc....." and may state his grounds. The Chairman's ruling one way or the other on a point of order must be taken as final. In case the speaker is referring to something in a previous speaker's address, or to any other course of conduct about some one present, the party so referred to, may also rise and address the chair with the remark "Mr. Chairman, I am sorry to interrupt, but as a matter of personal explanation I may state that.....". This personal explanation should be in the form of a brief explanation and should not virtually make up a second speech.

No doubt, every member of an assembly has a right to propose or second a motion (subject of course to the rules, regulations and constitution of the body concerned) and also to speak on the same. The Chairman will no doubt see that as far as it is legally within his power, he allows every member the exercise of this right and that the minority is

not bullied or brow-beaten by the rowdy majority. At the same time every member present should remember that the peaceful conduct of the meeting depends on individual efforts, and that in case disorder or confusion arises through the unruly behaviour of a member, the same reflects on all who are present at the meeting. In the case of a meeting which claims to be made up of men of culture and good breeding there should be as little cause for disorder as possible. A gentleman when publicly offended or insulted prefers to lodge a dignified protest and takes the assistance of the machinery provided by law. He is never justified in the use of force, except in self-defence, still less of language unbecoming a gentleman. These may no doubt appear to many as commonplace platitudes, but how frequently are these simple principles lost sight of in the heat of the moment, even by men occupying high places in public life?

As soon as the Chairman calls out "Order Order" the meeting must obey. The person to whom the words are addressed must immediately take the hint and the rest should support the chair. In case the Chairman proves to be an unreasonable autocrat, the remedy is not to create a disturbance and break up the meeting, but to take lawful steps which would ensure his removal. As far as the meeting is concerned, every member should readily submit to the disciplinary conduct of the Chair, as he is there to co-operate with the chair both with a view to preserve order and to facilitate the despatch of business as per the agenda.

### **The Poll.**

When a question is put to the meeting the voting is usually effected through a show of hands. This mode of

voting in an assembly where each member enjoys one vote does not lead to any injustice, but where, as for example in case of a joint stock company, the Articles of Association lay down rules and regulations as to the voting powers of its shareholders in proportion to the shares held, a result of voting by show of hands does not lead to the correct decision. Under these circumstances—or even in case of other assemblies where any member present thinks that the Chairman has erred in the calculation of votes—any person present, or a member may rise and demand a “Poll”. The advantage of the Poll is that, under it each member’s votes are counted according to his qualification (as per the constitution of the assembly), and that in case the regulations permit (as in case of joint stock companies), the votes of absent members who have given proxies to those present, may also be counted. The Poll should be demanded as soon as the result of voting by a show of hands is declared. The demand for a Poll nullifies the result of the show of hands as declared by the Chair. All those who have a right to vote must be allowed to vote at this Poll, otherwise an illegal exclusion may invalidate the Poll.

It must however be noted that the right to vote by proxy as referred to above, is a right generally provided for by the constitution of joint stock companies but in the absence of an express provision to that effect proxies cannot be used. When such provisions are included, the form of proxy is also provided for. This form must be substantially followed and where the use of it is made conditional to its deposit within a certain time, that regulation has also to be strictly complied with. The proxies must also be adequately stamped. Once a proxy is given which is to be

used at a meeting, it may be used at an adjourned meeting because an adjourned meeting is only a continuation of the original meeting.

Returning to the Poll it may be added that the Chairman may order the Poll to be taken at once or may fix a time and place for the same. The latter course enables the vote of all members being recorded, as it is not necessary that a person voting at a poll should also have been present when the poll was demanded. The Chairman generally orders the poll to be taken immediately either when he thinks that the meeting is fully representative or that the question is not of great importance. On the other hand where it is considered necessary that all interested should record their votes, a date and time is usually fixed.

Scrutineers are generally appointed from among the members either by the Chairman whose business it is to count the votes and report the result to the Chairman. The votes in case of joint stock companies are usually recorded on a form prepared by the secretary giving the list of the shareholders entitled to vote, together with the shares held by them and the votes they are entitled to. On this list the members sign their names in columns reserved for the purpose, as for or against the proposition in question.

### **Procedure at Committee Meetings.**

The general body nominates a certain number of its members to act as a committee either to look after a certain business or to investigate and report on certain points specifically mentioned. As per Pollock C. B. in *Reynell v, Lewis* 1145, 15 M. & W. p. 529 "the term "Committee"

means an individual or a body to which others have delegated a particular duty, or who have taken on themselves to perform it in the expectation of their act being confirmed by the body they profess to represent or act for." This is done by moving a proposition for the appointment of such a committee, which proposition states specifically the names of the proposed members, and carefully mentions the object for which the committee is appointed. The proposition frequently gives power to the committee to add to its number. This is a desirable addition, as it has been found from experience that in cases where the labours of the committee happen to last for a long duration, there is a tendency on the part of some of its members to gradually lose interest in its work. Again where some prominent member's name is left out through oversight, the reservation of this power enables the committee to invite him to join them in their deliberations. Where any name as proposed in the resolution is objected to, that question may be put to vote and decided on in the usual manner. If on the other hand a larger number is proposed than that required, the best course is to put all the names to vote simultaneously and to pick up the names securing the largest number of votes. The committee may meet as frequently as it chooses. If possible the proposition nominating the committee should include the number that is to form a quorum. This number has to be arrived at after a careful consideration of all the circumstances. Usually one-third of the total number is fixed as the quorum. Some prefer to fix two as the quorum but there are evident objections to fixing a very small number. If the members named are persons who are



likely to take to their work seriously—in fact none that do not honestly intend to be regular at these meetings should allow their names to be included—there is no reason why a quorum of at least one-third should be difficult to secure at each meeting.

At committee meetings, members remain seated while addressing the meeting and can speak as frequently as they like. The propositions and amendments moved at such meetings need not be seconded, unless the special regulations provide otherwise. The Chairman of the main body is usually the Chairman of the committee. This is most desirable where the committee has plenary powers. Usually the committees do not possess these powers and their main function is to investigate and recommend.

The committee next draws up its report, enumerating its recommendations as approved by the majority. The minority may if they desire add their note showing the grounds and points on which they differ. The report is then forwarded to the general body which appointed the committee. At the meeting of this governing body the report is read out by the Secretary, and the Chairman may move that the report be agreed to. In some cases the first proposition moved is that "The report be now received," which when passed is followed by a second proposition to the effect that "The report be now adopted." As soon as this second proposition is moved and seconded the report is open to the members for discussion. In the British Parliament the report of the committee is first passed and then it is immediately proposed that "The report be read a second time" on which the same is open for discussion. If this proposition

is carried, the question is determined and the report given effect to. If on the other hand the report has to be amended, it may be referred back to the committee for reconsideration as per the wishes of the majority together with the suggested amendments. If the majority of the governing body wishes to adopt only a part of the report, and rejects the rest, the portion which is to be adopted has to be passed paragraph by paragraph, in the form of so many propositions, and the whole series may be put collectively to the meeting in the form of a final resolution to the effect that "The report as amended be now adopted." It may be added that where sub-committees are appointed they submit their report to the committee appointing them and not to the general body.

## CHAPTER IX.

### Industrial Organization and Labour Efficiency.

#### A General Survey.

In these days of keen industrial rivalry between civilized nations, the organization of industries from the stand point of labour efficiency on a scientific basis forms the most important factor. In Europe and America this branch of organization has been engaging the most anxious attention of the State, the employers, as well as the workmen, for years, with the result that, after passing through various experimental stages, their industries stand on a footing far ahead of us. Our Indian industrialists seem to have ignored this factor all throughout though some of them have quite recently displayed a sort of lukewarm interest. The efficiency of labour should not only claim greater attention owing to its potent influence

on the progress and prosperity of the industries concerned, but it should appeal to all patriotic Indians, conducing as it does, to the well-being and happiness of the toiling masses. It is a question of too great a national importance to be allowed to rest on the tender mercy of short-sighted industrialists who have so far been too busy amassing fortunes to spare time, thought, and labour, towards what seems to them at the first sight to be an unprofitable diversion which has nothing more substantial behind it than mere sentiment. How erroneous this view happens to be, has been demonstrated by the result of experiments on the other side of the water, with the result that some of the most enlightened of our industrialists seem to have begun to sympathetically consider the possibilities of applying at least some of the scientific principles of industrial organization to the factories and mills under their control. Unless a large number of these industrial magnets are made to appreciate the fact that steps taken for the care and protection and encouragement of the working classes, with a view to maintain and improve their efficiency, are as much, or perhaps more, to their own interests than those of the labourers concerned, substantial progress cannot be expected in that direction. In the present state of Indian labour, ignorant and disorganized as it is, one cannot expect it to take the initiative and insist on better treatment. Besides, men who are encouraged to ask for a rise in wages merely for the pleasure of getting it, and who are not in a position to sufficiently appreciate the fact that higher wages can only be demanded in return for an adequately higher or superior production, are not likely to do much good either to

themselves or to the industries concerned. The evolution must be gradual and for that purpose the lessons taught by the industrial history of Europe may be studied with advantage. The preliminary steps must be taken by the employers and the legislators, untill by gradual progress from stage to stage, labour is brought to a level from whence it can be relied upon to look after its own interests. The patriarchal order of things must exist here for the present as it did in Europe at the early stage of its industrial history, till labour gradually grows in strength, improves in education and learns to appreciate the fact that its own interests and that of industries concerned are identical, and takes upon itself the work of providing its own welfare institutions in return for an adequate and equitable rise in wage. In short the maxim of our modern industrialist should be "We must make men as well as money." With such men on the highest level of efficiency, what is technically called in America "Scientific Management," can be made to co-operate to the great advantage of both labour and the industry concerned. "Scientific Management" in the words of Mr. F. W. Taylor, of America, who is the acknowledged pioneer of this idea, "involves in its essence a "complete mental revolution on the part of the workmen "engaged in any particular establishment or industry—"a complete mental revolution on the part of these men "as to their duties towards their work, towards their "fellowmen, and towards their employers. And it involves the equally complete mental revolution on the "part of those on the management's side—the foreman, "the superintendent, the owner of the business, the

“board of directors—a complete mental revolution  
“on their part as to their duties towards their fellow  
“workers in the management, towards their fellow  
“workmen, and towards all of their daily problems.  
“And without this complete mental revolution on both  
“sides Scientific Management does not exist.” This  
much desired revolution must be attained through gradual  
stages of evolution in order to prove to be enduring.

This revolution constitutes in both the employer and the employed appreciating the fact that, the progress and prosperity of the industry in which they are engaged should be the desire of both, their interests being identical; that in the gains and profits made, the labourer as well as the capitalist should have a fair share; that the well-being of the workmen is as much to the interests of the capitalist as of labour; that a healthy, intelligent, well trained, self-respecting type of workmen is a great advantage to the industry in general; that a rise in wage can only be allowed in case it also brings about a rise in production and that in order to induce workmen to put forth their best efforts, the payment of wages should be so arranged as to afford a sufficient incentive in that direction; and that a general rise in the standard of living among workmen stimulates, if properly tackled, the incentive to earn more by improving production.

### **Factors Influencing Labour Efficiency.**

We shall now proceed to discuss the principal factors which if properly organized and directed would go a long way to add to the ability of a nation to compete with its rivals in the industrial markets of the world, of course

after making all the due allowance for the most potent element *viz.*, the national temperament in each individual case. The main headings under which these are generally classed are :—

- (1) Protection of Child and Female Labour,
- (2) Conditions under which the work is carried on,
- (3) Machinery in use,
- (4) Working hours,
- (5) Methods of remuneration,
- (6) Housing,
- (7) Physique of labourers,
- (8) Labour Organizations,
- (9) Education and training.

### **Child and Female Labour.**

Under our present day factory system thousands of men, women, and children are made to work from early morning to late in the evening, in a block of buildings full of disagreeable odours, noise and bustle—a factor which threatens to impair the national health if not carefully watched with a view to counteract or prevent the evils arising from this state of affairs. In Bombay the introduction of electricity made it easy for mills during brisk season, to work day and night and work people were induced through a slight rise to put in work for as many as 15 hours a day. This was no doubt a short-sighted policy, both on part of the employers and the employees, who were, as it were, burning the traditional candle at both ends. The result of fatigue through overwork was bound to react in the long run, and parti-

cularly in case of women and children it was likely to result in even greater injury to the efficiency of labour in the near future. The health of female operatives—mothers of future generation of workpeople—and that of children who were expected to grow up and supply the adult labour in course of time, was being ruined. It did not seem to occur to some of these industrial magnets that they were deliberately slaughtering the traditional golden goose. The Government however, profitting by the similar experience of European countries, where also the industrial magnets were in no wise inclined to be charitable before legislation supervened, took the matter up in 1906, ordered an enquiry and appointed a commission, as a result of which the Indian Factory Act of 1911 was passed which repealed the Act of 1881 and amended that of 1891.

Under these Acts no person (subject to certain exceptions) is to be employed in any textile factory for more than twelve hours in any one day. In case of children it was laid down that in textile factories no child from under fourteen years of age should be employed for more than six hours a day. The restriction has also been imposed to the effect that, except in certain specified cases, no person shall be employed before 5-30 A. M. or after 7 P. M. The use of female labour during the night has been entirely prohibited except in cases of cotton ginning and pressing factories. Females are not to be employed for more than eleven hours with an interval of rest of about one and half hours. The Act principally attacks the textile factories because according to the report of the Commission of 1906 excessive hours were found to prevail mainly in our textile factories. A mid-day stoppage is also provided for by the Act unless

a proper system of "shifts" is provided for. A due provision is also made for the proper fencing of machinery ventilation, etc. Women are not allowed to be employed in factories during night hours as the danger is that they may not be able to take rest in the interval on account of domestic work at home. It is thus hoped that the maintenance of good health and physique among the labouring population, which these regulations are expected to conduce to, will amply compensate for the inconvenience arising through their operation. In the absence of these restrictions the employer would no doubt reap an immediate advantage, but in the long run the impaired efficiency of overworked labour is bound to react on him. Besides, the protection and care of child labour guarantee a supply of able bodied and efficient workmen in the near future. The same result is sought to be attained through legislation for the protection of female labour—the source of the supply of future labourers.

### Factory conditions.

The modern factories are not, as in old days, worked in buildings originally meant for residence or stabling. The scientific manager has found out how much of good time, labour, material, and consequently money is lost through requisiting the least suitable building for factory purposes. Ill ventilated, overcrowded, badly lighted and badly arranged factories produce proportionately less than those which are free from these defects. A workman who is made to work in a dark badly ventilated room produces less, not only because of the constant obstruction, but also on account of the extra fatigue imposed upon him, quite apart from the permanent loss of efficiency through the loss



of sight or health. In laying out therefore a modern Factory Building, increased attention is paid to the convenience and safety of the work people. Care is taken to see that the arrangements permit of work being done in such buildings without being hampered or obstructed through want of proper accommodation, sufficient light, etc., and hygienic rules such as those relating to adequate ventilation, air circulation, etc., are seldom neglected. The modern factory buildings in Europe and America provide conveniences and comforts of various descriptions such as washing and tiffin rooms, restaurants, etc., in order to facilitate the workmen making the most of their hours of recreation and thus helping them to get refreshed in order to be able to carry on their work with renewed strength and greater dexterity. Great care is also taken to fit the machinery with proper guards, with a view to minimise danger to the life and limbs of the employees. Fireproof buildings, as far as possible, are provided for and adequate fire units are attached to such establishments. Artificial illumination is amply provided for in order to make up for the dim light during certain seasons *e. g.*, during the monsoons in India and fogs and rains in Europe and America, and also for night work when the factories are working overtime. At the same time arrangements are made to avoid excessive light or sunlight glare from interfering with the work done in the factory. The workmen are also given lessons in fire-drill to enable them to take advantage of the fire extinguishing apparatus provided and to render immediate and the most efficient assistance in case of an outbreak of fire.

## Machines and Implements.

It hardly requires to be mentioned that the nature of machinery in use in a factory influences its efficiency in a large measure. The latest improvements in machinery should be taken advantage of as far as possible and constant repairs and replacements of worn-out machines should be attended to. The modern industries can only be run successfully through the help of an up-to-date machinery and motive power. In India we have still a large population that finds employment as hand-loom cotton workers. According to Mr. H. S. Chatterji, in his book on "Indian Economics," "In 1901 out of every thousand, 24 persons were returned as cotton workers, apart from those employed in Mills." These hand-workers are according to Mr. Chatterji mostly busy "producing fancy and costly goods for which the demand is too small, or too local, for the power-loom to compete. Other features of the industry are that the goods produced are more durable than those manufactured by power." Notwithstanding this, machinery and power not only play the most important part in the working of industries, but in the two staple Indian industries *viz.*, cotton and jute, the progress of power-mills has been phenomenal. In case of raw cotton we are said to be exporting half of our production as raw material and one quarter as yarn, the balance *i. e.*, only a quarter of our total produce is retained for local use. It will thus be seen how large a field for the expansion of our cotton industries still remains unexploited. Most of the cotton mills are situated in the Presidency of Bombay—the cities of Bombay and Ahmedabad being the principal centres—and the industry is mainly in the hands of Indian Capitalists. The Jute Mills are to be found principally in Bengal

—Calcutta being the chief centre—which are largely managed by European Capitalists. Both these staple industries of India owe their rapid rise to power and machinery. There are of course Woollen and Paper Mills but their number is too small to be taken into account.

According to Mr. Chatterji there were only five Woollen Mills in India in 1912, compared to four in 1902 and five in 1892. The number of Paper Mills in 1912 was seven as against four in 1887. These figures while compared to 234 Cotton Mills in 1912 and 59 Jute Mills in the same year are no doubt insignificant. As for Iron and Steel the only enterprise of importance is that of Messrs. Tata and Sons which was floated in 1907 with a large Indian capital of £1,500,000. The future expansion of these branches of industry depends in no small measure on the use of efficient machinery. It is asserted by some that owing to the scarcity of labour in America, labour-saving inventions have been much stimulated there. It is also contended in praise of the American Manufacturer that he encourages his workmen by all possible devices to offer suggestions which are likely to improve the working capacity of the machinery on which he is employed. All suggestions thus offered are carefully considered by experts and if found to be practical are given effect to, the workmen concerned being rewarded with promotions.

In the case of machinery, the other factor conducing to efficiency of production is the pace at which the machines are worked. If machinery is worked at a faster pace it would no doubt result in a large production up to a certain limit without impairing quality, but beyond that limit the extra quantity can

only be obtained at the sacrifice of quality and perhaps also at a proportionate increase in the loss by wear and tear as well as through the increased working expense on machinery run under such high pressure.

We have already seen how modern factories are laid out in order to help efficient production. The planning ought also to take into consideration the nature of the machinery which is to be fixed in the building with all possible facilities for the movement of material from one process to another. The machinery has thus to be arranged in proper sequence to facilitate work and save time.

### **Hours of work and fatigue.**

Labour, which after all is the exertion of human physical and mental powers, can be applied for a certain period a day without loss of general efficiency, either in the constitution of the labourer, or in the quality or quantity per hour of the work produced. If more work per day is imposed than an average human frame can bear, the immediate result is the deterioration in both the quality and quantity of production during the latter part of the day, as compared to the former, and eventually the sum total results in the gradual wearing out of the human frame itself, with consequent general deterioration of efficiency. This if persisted in, brings about a sudden collapse and eventual halt to all of its activity. Moderate fatigue is essential not only in the interest of industries but also in the interest of the workmen themselves. What is objected to is over-strain. This question is particularly met by legislation in all modern industrial countries through limiting of the hours of work. The limiting of

hours in itself has presented considerable difficulties. The actual number of hours per day for which a workman can be efficiently employed in a particular industry and under particular climatic conditions is a mooted question. The point on which one might expect a general agreement is that the hours of work may be either too long or too short from an efficiency standpoint. The hours if too long will impair efficiency through fatigue. The quality and quantity of work produced in the latter part of a long working day would certainly prove to be inferior to that produced during the earlier, whereas, the effort and the consequent constitutional strain and exhaustion may be fourfold in comparison. The recovery from excessive fatigue would necessarily be slow, and if such effort is persisted in, permanent injury to the efficiency of the workman concerned would be the result, without any substantial advantage arising through his over-work. In short, the essential condition to continued efficiency is an appropriate interval of rest or recuperation. The difficulty of arriving at a standard day, made up of a fixed number of hours for each class of industry, is not lessened by the fact that a less efficient workman employed in the same class of work puts in greater exertion during the same period of time as compared to his more competent colleague. Prof. Edward D. Jones quotes in his book entitled "The Administration of Industrial Enterprises" a statement as coming from a Woollen Manufacturer *viz.*, that, "The good weaver never seems to be doing anything; the poor weaver always appears to be hard at work. The good weaver is quietly on the alert for things to happen; the poor weaver is always fussing around to catch up things after they happen; con-

sequently the good weaver not only produces more work but better work than the poor one." "It is not a question of quick motions. One of the best weavers we have, is a man of very slow, almost sluggish motions. One of the poorest one we ever had, was a nervous, quick-motioned man. The first made every move count; the second made three unnecessary moves to one that was useful. We believe the same types will be found everywhere in any line of work," To this add the fact that too much leisure will lead to almost the same result *i. e.*, loss of efficiency. If for example a working day is too short, the production will be small and the want of practice may impair the quality of production. The object aimed at is to stop exertion at that particular point where it is likely to result in over-strain. The following sentence out of Prof. Jones' book from which we quoted above explains what over-strain actually means. "Passing beyond that reasonable fatigue which acts as a moral and physical therapeutic agency, it must be recognised that there is a point in labour where the exertion becomes too costly for the results achieved—too costly for the worker, too costly for the employer, too costly for society. This may be called the point of over-strain." The learned Professor further adds that "Remembering that it is uneconomic to sacrifice a greater good for a lesser one, it must be a rule of economics that labour should cease at the point where society begins to suffer a greater loss through the breakdown of the labourer than the gain resulting from the product of his exertion."

In England eight hours a day is claimed by some as sufficiently long and many employers have admitted that this "eight hours shift" has proved very advantageous. Of course much will depend on the energy and conscientious

effort put forth by the workmen in their work. It is easy to understand that a workman working for eight hours a day may produce as much quantity and quality of work as some other who is made to work for twelve hours. The difference may be due either to the inherent superiority of the former or to the greater energy put forth by him. It is therefore clear that in organising industrial concerns, besides regulating the number of hours of work, steps should be taken to see that workmen are encouraged to put into their work as much energy as possible without actually overworking them. The increased efficiency thus secured will enable short days being introduced without loss or inconvenience. In India the Factory Act as we have seen lays down a limit of twelve hours a day for an adult. This does seem to be a fairly long day in a tropical country particularly in comparison with the "eight hours' shift" of England. The problem however is full of complication. A reduction of the number of hours in European Countries is allowed on the supposition that the production will be maintained by an increased effort on the part of the workmen and as we have seen, that expectation seems to have been realised. Whether the same reduction, say eight hours, can be effected in our factories without diminishing the quantity and quality of production to any appreciable extent is a moot question on which opinion seems to be sharply divided. According to the Hon'ble Mr. Dadabhoy in his speech delivered on 3rd July 1911 in the Imperial Council while the Factories Bill was being discussed, "The Indian operative is not capable of concentrated or continuous labour or of prolonged and sustained effort. He is by nature not disposed to take his work seriously ; he has an incurable habit of spreading the work

he has to perform over a long period of time ; he invariably works in an easy, careless, perfunctory manner ; he must needs loiter in the midst of work, and he, as though instinctively, makes up for prolonged hours of work by being slack during 'no inconsiderable portion of his routine work.' No doubt the Honourable gentleman spoke with the authority of one who had some experience in this regard but the question naturally arising in the mind of one anxious to deal with the subject as an unbiassed student is whether these shortcomings cannot be remedied. The European workmen, as far as we can judge of them from the writings of their own countrymen, are not entirely free from at least some of the defects complained of by the Hon. Mr. Dadabhoy. Experiments alone will show how far those methods which have proved successful in this regard in Europe and America may be imported in India with an equal and appreciable degree of success. These experiments should not be restricted to workmen in any particular area, but should be tried all over India with different classes and castes of workmen. In a vast country like ours the workmen seem to differ so widely in their modes of life, ideas and temperament, that the result of experiments tried among one set in one district, cannot be taken as a criterion for judging the capacity of another class in some other district. According to an experienced mill manager, certain experiments in incentive piece-work which proved successful with the Ahmedabad mill hands failed entirely at Sholapur. If some method could be devised, by which our workmen could be made to understand and appreciate that the time they are said to be wasting through slackness, if saved, will result in a shorter day, our mills may be able to gradually reduce the



number of working hours per day without adversely affecting the production. The question of fixing a standard working day suitable to all is further complicated by the fact that the pace at which a workman is made to work also governs physical exhaustion *e. g.*, a workman, working in a department, or on a process where the pace is slow *i. e.*, where he has not to go through rapid movements of the body, can work for a longer number of hours a day and may not be half as much fatigued as his brother who works on a process requiring much quicker movements. In all well-regulated concerns in Europe and America the management never loses sight of this factor. They carefully fix the pace and the number of hours which an average workman in each department can safely put through. According to Prof. Jones in his book on "Administration of Industrial Enterprises," "Unregulated piece-work is known to be a fertile cause of physical exhaustion and neurasthenia among certain groups of wage earners. Under good management, exceptional performance will only be attempted after the conditions of the task have been subject to the minute analysis of motion study and time study, after the proposed exertion has been carefully figured on a horse-power basis by competent engineers, and after the operatives have been selected on the basis of fitness for the task." The scientific manager therefore should carefully regulate the number of hours of work for each department, taking in view the climatic conditions, as well as the nature of work the operative is called upon to put in connection with each of the departments.

## Wages and how they should be paid.

### General discussion.

Payment of workmen per time, or per day, is the most ancient method known to society and is, from a modern scientific standpoint, the most unsatisfactory method of remunerating labour both from the point of view of the operative as well as the employer. Attempts have been made all over the modern industrial world, to improve upon this method by devising systems which would induce the operatives to use their best efforts and increase their efficiency. These methods try to introduce an incentive among the work people to produce more and thereby to earn more. Experiments have proved conclusively that the part which this incentive plays in stimulating production when properly directed is enormous. The methods employed make use of two factors to produce incentives *viz.*, (1) reward by way of increased wage, and (2) penalties for falling short of standardized production. These are either combined or made use of separately as we shall see in the systems dealt with later. The reward is in the form of an additional income paid to the operative directly after the work is done, and in case of continuous satisfaction, it is followed by promotion. The punishment may be in the form of a fine or assignment of less pleasant work. Where inefficiency and carelessness is persisted in, the punishment in the last resort takes the form of a discharge. Now in order to arrive at the correct wage to be paid, it should be remembered that increased wage of itself does not mean increased efficiency. The amount payable as wages should be so arranged that it is neither too high nor too low. What should be aimed at, is the happy

medium, known as the "living wage." According to Dr. Shadwell in his excellent book on "Industrial Efficiency," "Labour may be plentiful and cheap, but it may be bad economy to buy it cheap. For what an employer wants is not labour but the result of labour, and if he buys too cheap he will not get it; just as a man who buys a coat may buy too cheap. What he wants is not a coat, but warmth or the result of a coat, and if he buys too cheap he does not get it. Cheap labour may be dear through want of capacity or of will. The former is generally recognised, but the latter is often overlooked. Wages are the incentive to work, and must be adequate to produce it. This is the real meaning of the 'living wage.' Men may be forced by their necessities, in accordance with the law of supply and demand, to work for wages below a standard which they consider acceptable and call a living wage.....Labour so purchased is apparently cheap, but being unwilling it is really dear and false economy." The adequate wage therefore ought to be paid to all workmen, but the payment of a wage higher than the adequate standard reacts on efficiency as much as one which is inadequate. This is noticed in countries like India in connection with our mill hands, where the low standard of living combined with the scarcity of labour, enables workmen to demand and secure wages, which, though they appear to be low when compared to those earned by similar operatives in European countries, are in fact, according to experts, much higher than the margin of adequate wage. The result is that efforts to induce these workmen to use their best efforts in stimulating production through an offer of extra payment, or larger wage, frequently fail. It is the universal complaint, for

example, that workmen employed in Indian Factories leave for their native villages as soon as they collect sufficient money, thereby impairing the efficiency of Indian industries, which according to some is due to their being overpaid as judged from their standard of comforts. In case of workmen who are not overpaid according to their standard of living, whether in India or in England, an inducement to earn a little more by putting forth further efforts has always proved successful, but in case of workmen from certain districts of India this method of stimulating production has not succeeded, because when labour is already overpaid the offer of an extra wage fails to act as an incentive to increased production. According to an Indian Mill Superintendent of thirty years' experience, with whom the writer had the advantage of discussing this problem, our Indian workmen invariably stay away from work for a number of days in the month. A month is reckoned by the mills in Bombay as of twenty-six working days. According to this authority 24% of workmen put in an attendance of sixteen to eighteen days on the average, about 50 to 60% that of twenty days, whereas, only 15 to 20% complete twenty-four out of twenty-six working days. They were not only much inconvenienced by constant gaps caused through this irregularity, but the laying up of idle machines involved material loss through lessened production, waste of motive power, etc. The management therefore attempted to secure about twenty-four days' attendance on the average by introducing a payment by way of bonus in connection with the wage paid. The bonus offered was Rs. 2, per head over and above the usual monthly wage of Rs. 14, to be paid to those who

put in at least twenty-four, out of twenty-six working days. Only 5% of the habitually irregular men attempted to earn the same. This was largely due to the low standard of living prevailing among our mill hands. The wage of Rs. 14, is by no means a high one from the casual observer's standpoint, but when a bonus of nearly 16% over the usual monthly wage fails as an incentive, the only conclusion one is driven to is that the Rs. 14 wage is high enough for this class of persons. This is no doubt unfortunate. The only remedy seems to be raising the general standard of living of our labouring classes through the spread of primary education and the introduction of an element of healthy ambition among them which would make them aspire to a higher level generally. At present their wants are few. They live huddled together in dirty and unsuitable chawls on the joint-family system which is an additional help to cheap living and one which makes them so careless about earning a better wage through superior exertion. No wonder these employees can thus afford to take holidays alternately. The joint family budget easily admits of the loss of wage entailed by the irregularities of its slacker members. Contentment is held out as a great virtue but a scientific manager finds it to be the greatest of all impediments to the progress or prosperity of industries. Healthy discontent seems to be much more desirable in the field of our industrial activity and perhaps in many other spheres of life as well. If we could infuse this spirit of healthy discontent among our working classes, the experiments of the type we have just noted would produce much more satisfactory results. The industrial strength of European Countries, as well as that of the United States of America, is due in no small

measure, to the high standard of living and the higher ambition of the working classes due to the appreciation of this factor.

### **Wages in comparison to Production.**

Returning to our subject, the next point to be noted in connection with wages is, as we have already noticed, that it is not the actual amount paid which matters, but it is the amount of wage taken in comparison with the quantity of work produced which forms the main economic factor conducing to the efficiency of labour. We have been repeatedly told by those who ignore or lose sight of this factor that labour in India being "cheap" we are at an advantage compared to other countries. The Indian workman though intelligent enough to be able to pick up work that may be shown to him is, in the absence of specialised industrial training, lacking in the usual standard of education, and is influenced by various other climatic and physical causes, more expensive economically in comparison with his brethren in Europe and America. In order to bring him up to the standard of the average European workman his efficiency would have to be improved a good deal.

The high wage paid to efficient workmen pays both ways. The production is larger proportionately and at the same time there is a constant incentive to improve efficiency. There is less wastage in the use of raw material and less supervision expenses. In these days of exceptional prosperity for the textile industry in India the slackness and inefficiency of our mill labour has done incalculable injury, because though fortunes have been made by mill magnets, still larger prizes have been lost through our not being able to take the fullest advantage of

the exceptional opportunities afforded by the war when Lancashire goods are practically shut out from our markets through freight and other difficulties. The inefficiency of our labour is the greatest handicap to an industry like the textile industry, where raw material constitutes an insignificant addition to the cost of production as compared to the cost of labour and motive power. The increase in wage, or the experiments in their payment on scientific lines as dealt with hereafter, are based on the assumption that the workman concerned is ambitious enough and will try to earn a higher wage by improving himself. Where however such ambition is absent, these experiments are bound to fail. According to Dr. Shadwell, "If wages are to secure efficiency they must be earned. Wage takers are always ready to handle more money, but they are not always ready to earn it." That is the difficulty experienced with workmen who are either too lazy or contented, or whose standard of living is below the average. It is thus curiously in the interest of both the capitalist and the workman that the latter should be encouraged to attain a higher standard of living.

### **Some root causes of inefficiency.**

In this connection it will not be out of place to note some of the causes of industrial inefficiency as dealt with by Mr. Forrest E. Cardullo in one of his articles on Scientific Management in the American paper entitled "Machinery." According to this authority both the management and the workmen are occasionally to blame. The first cause which is described as the most prolific source of inefficiency is "mental laziness" on part of both the management and labour. In a large number of

cases the management fails to take the trouble to think out and devise methods of work. Things are left to subordinates to be worked out as best as they can and each tries to get it through by using as little mental effort as possible. This ought not to be and both the management and the workmen should be made to think out and work on the most scientific principles. In fact the management should take all the initiative here. The second cause of inefficiency is timidity in the employment of capital with a view to keep the equipment and tools as up-to-date as possible. The third is want of adaptability to changing circumstances. The fourth is the want of a system for the payment of wages which will stimulate effort and increase efficiency. The fifth is the contempt with which workmen are looked upon by some employers which makes co-operation between them impossible. The sixth is avarice which makes them grudge to pay an adequate wage and spend on the comfort and convenience of workmen. The seventh is the natural disinclination on a part of certain type of labour to increase its pace. The eighth is lack of ambition. The ninth is a feeling of enmity on the part of labour towards capital.

The fourth, fifth, seventh, eighth and ninth causes may be remedied by a proper system of wage payment being devised, as well as by welfare work being introduced with a view to make the workmen's lot as easy and happy as possible. Dr. Shadwell also emphasises this point when he speaks of English labour viz., that "Where the wage incentive has been of such a character as to stimulate the workers to do their best,



there the lead which England gained long ago has been maintained; whereas under the ordinary time-work system which does not provide that incentive, but discourages effort, the once still greater lead has been entirely lost."

### **Some characteristics of Indian labour.**

Before we proceed to deal with the methods and principles governing the payment of wages on the incentive piece-work system it will not be out of place to consider the characteristics *i. e.*, the weakness and strength of character of our Indian workmen, as the success or failure in application of these systems in case of our workmen will largely depend on their adaptibility and willingness to co-operate. We shall for this purpose take up the opinions of one or two leading Indian Economists and examine the same in detail.

According to Mr. Sirkar in his book on "Indian Economics" our Indian workmen are capable of acquiring great skill as artisans and can learn almost any art. Their drawback according to this authority is that "they do not habitually show any standard of good workmanship". "They are constitutionally negligent and prone to idleness and slackness and cannot in the absence of supervision, be trusted to work hard, to take care of their tools and materials and to display the best standard of workmanship of which they are capable. They may be called dishonest in the sense of lacking steadiness and reliability and of not being fit to be left to themselves. Hence Indian labour in spite of its seeming abundance and cheapness, is inefficient and dear in the long run, as the cost of supervision is very high". The other point urged against Indian labour by Mr. Sirkar is that "Our

Indian labourers have no desire of accumulation, no ambition to rise to a higher scale of life by superior exertion, no pride in their work or generous ambition to beat other nations by the excellent quality of their production". Though the author cannot bring himself whole heartedly in agreement with all that Mr. Sirkar has asserted, it cannot be denied that at least some of the defects complained of are present. The fault however does not lie entirely with the working classes. Our workmen are devoid of that education and training which would place them on a higher level *i. e.*, on par with the workmen of Europe and America. Education (by which primary education is particularly meant) would make them ambitious, intelligent, more mobile and enterprising. It would naturally make them appreciate a higher standard of living, make it possible for us to teach them how to do their work more efficiently, to see to the advantages of migrating from their native villages to towns where their labour is likely to be better rewarded, to make them look to the problems of life before them in a practical light as opposed to mere meaningless sentiment, to enable them to understand the value of saving and investment, and which would make them work with a view both to live a healthy life as well as to save for a rainy day. No doubt the climatic conditions may also be urged in defence of physical disinclination for work, but that argument has only a limited application and that too to a small part of the country. In these days of electric fans and artificial methods for regulating of temperature, much of these drawbacks can be remedied by a management appreciating scientific methods. The Indian workman according to Mr. Sirkar is also fond of repose. If by that is meant more rest than is necessary for him in

order to work off the effects of the ordinary fatigue of daily work, it is no doubt a regrettable drawback. But if he can afford to enjoy these long intervals of repose only in case he is overpaid according to his standard of life, the natural remedy appears to be to try by all expedients to raise this standard by attracting him towards all innocent pleasures and comforts, and giving him the option to spare all these by giving more time and attention to his work. No doubt the spread of primary education will, as already stated, make this work easier. The European and American labour is equally fond of repose, comforts and amusements. In fact the workmen there are trained to aspire after an increasingly higher standard of comforts. Owing to their superior education they are intelligent enough to understand and appreciate all offers made to them by their employers to earn more by superior exertion. Being used to a higher standard of living they are naturally anxious to maintain the same. The work of the scientific manager is easy in districts where the working classes are anxious to earn more. Of course the standard of living of the Indian working classes is almost the lowest compared to other industrial countries, but the desire to earn and accumulate among the working men of certain districts, or towns, in India, has made the introduction of wage incentive methods easier. Whereas, in other parts of the city where the natural wants of the people are few and the hoarding or saving instinct almost nil, the incentive piece-work methods have failed to stimulate production. This incentive piece-work method is described by Dr. Shadwell, in his book from which we have already quoted, as a method wherein the stimulus of ordinary piece-work is increased by additional rewards. "It takes different forms

but generally consists in paying each worker a higher price for each piece or job in proportion to the rapidity and quality of his workmanship. This automatically adjusts the incentive to the individual, who has before him the choice of earning more, or less, according to capacity and industry. It is undoubtedly a most effective method of payment ; it encourages workers to do their best, remunerates them directly for extra effort, pays the employer and benefits the whole concern on which both depend. The employer is able to pay higher wages for quicker work, because he gets a larger output for the same machine cost. He divides with the worker the advantage accruing in the difference."

Mr. Chatterji in his book on "Indian Economics" takes a different view from that of Mr. Sirkar. According to him the causes of inefficiency of Indian labour are not defects of character or climate, but it is perhaps more largely due to long hours of work, insanitary conditions that prevail in the Indian mills, ignorance, the shifting character of the Indian labourer, the irresponsible conduct of the Indian Industrialists towards their employees, and the want of esteem with which labour generally is looked upon in India. "One of the remedies for the inefficiency of Indian labour" as recommended by Prof. Kale in his book on "Indian Economics" is happily in agreement with one of those urged by the author *viz.*, "removal of ignorance through a spread of primary education." According to Prof. Kale "Efficiency implies physical capacity and stamina, regularity and punctuality, honesty, skill and activity, carefulness and concentration and such other qualities. Ignorance is responsible for

many of the habits which mar the economic usefulness of the labourer. The spread of primary education among the people of the country will help to remove at least some of the causes of complaint."

The long hours of work which prevail in India, even under the Factory Acts, as compared to those in force in European Countries, must no doubt be responsible to at least some extent for the inefficiency of labour as asserted by Mr. Chatterji. If our climate is more trying, as it no doubt is, for the greater part of the year in the principal industrial cities of India, the fatigue involved must be higher and it may be true, as it is asserted in some quarters, that the frequent holidays snatched by our workmen from their employers, through keeping away from work, may be at least in some cases due to fatigue imposed on a not exceptionally sturdy constitution by long hours, trying heat in an improperly ventilated building without due provision for intervals of recreation and inadequate facilities for refreshing themselves during the intervals of rest.

Further, according to Mr. Chatterji the other cause which strikes at efficiency is the fact that owing to the exceptionally large demand for industrial labour compared to the supply, our workmen are in a position to secure higher wages compared to their standard of living and are thus independent of their employers and can afford to ignore all efforts on their part made with a view to persuade them to put in more effort in order to produce more on being offered a chance to earn more thereby. To quote Mr. Chatterji "the demand being in excess of the supply, the labourer finds himself in a place to dictate his own terms. It is

said that the production of a mill in India is only 65 to 66 per cent of that of an English Mill, though many more operatives are engaged here and it is further calculated that in India it takes five or six men to do the work done by one Lancashire operative. So the Indian Labourer though he gets much smaller wages than an European operative, the former's wages are not cheap but much more dear".

### **The methods of remuneration.**

The methods of remuneration as known to modern industry are numerous. The most prominent of these are the following :—

- (1) Time or day wage.
- (2) Piece-wage.
- (3) Time and piece rate combined i. e., a compulsion of producing a certain standard of work laid down within the time stipulated, coupled with an inducement to produce more through an offer of extra payment.
- (4) Co-operation.
- (5) Profit sharing.
- (6) Co-partnership.
- (7) Commercialisation of labour.

We shall now deal with each of these factors with a view to study their influence on efficiency.

#### **Time or day wage.**

Under this method a given sum is paid for a fixed period of time *viz.*, so much per hour, day or month. This is the least satisfactory method of remuneration though

when paid under freer conditions than what prevail in some parts of India, they are undoubtedly a step in advance. Under the old objectionable system prevailing in the rural parts of India a type of serfdom—happily, disappearing under the present advancing economic conditions—exists, under which a labourer mortgages his services for a fixed time for a loan advanced to him on the occasion of marriage or other similar incident, which loan he works off by working under the lender who supplies him with the bare necessities of life during the period. The present conditions however work in favour of an independent contract between the employer and employed and the time wage system has become general. The time wage system carries with it numerous drawbacks. The workman for example knows that as long as he manages to do a minimum of work without exciting comment, he need not do more, particularly so, when he does not expect any reward for the extra output he may produce through extra effort. The advantages claimed under this system are that it involves very little labour in the calculation of wages, and that the work produced is likely to be more perfect, as the workman is allowed to take his time instead of being tempted to rush it. The disadvantages are obvious. The superior workman in the group is not encouraged. He is paid the same wage as one on the average level of efficiency in his group, or one on the lowest margin of efficiency, whereas in fact, the workman below the average actually gets more than what he desires. This is most demoralising and has the unfortunate tendency to drag the superior workman to a lower level. It is also doubtful whether the advantage claimed viz., that the best work is produced because the workman is allowed to take his own time is

one which is attained in every case in actual practice. This method of remuneration has been found to be the most wasteful and has been superseded by more scientific methods, as dealt with hereafter, in all industrial centres of Europe and America. In the words of Mr. J. Russell Smith from whose book on "The Elements of Industrial Management" we have already quoted, "There is little doubt that day work is a very unsatisfactory method, both from theory and practice, for the reason that it can give little or no recognition to the fact that men are of different values. The attempt to reward A is apt to make B dissatisfied. Because of the lack of definite measurement of output, B thinks he is as good as A, or at least claims that he thinks so, which amounts to almost the same thing from the standpoint of diplomacy and relationship within the works. As an evidence of the weakness of the system of day work, experiments have shown double output with no increase of wages, merely because it became known just what every man was doing. By this mere turning on of the light or of having knowledge (like the force of public sentiment) we produce this 100 per cent increase." There is therefore no room for doubting the proposition that mankind are not inclined to do their best unless an element of encouragement in one form or other is introduced. The best medium through which their efforts can be encouraged, is through the introduction of a system which measures the result of their work and rewards them in proportion to the quality and quantity of production. This brings us to the consideration of a system known as remuneration of labour on the piece wage basis.



### Piece-wage system.

Under this system the employer pays a set rate per job or unit produced. This is of course a question of contract between the employer and the workman. The rate is arrived at after a careful calculation of the previous performance of the average standard of workmanship on the time, rate principle. Under this system a workman is encouraged to put in his best effort, and save as much time as possible with a view to produce more, and thus it may be worked to the mutual advantage of the employer and the employee as long as it is not allowed to be overdone, for any excessive zeal shown here may lead to overwork, which may impair the health of the employee and consequently injure his efficiency,—a tendency which has to be closely guarded and provided against. The employee under this system is more inclined to help the management in its efforts, to provide the right kind of raw material, and dislike delays through breakdown which he tries his best to prevent. The cost of general supervision is also lowered as it is to the employee's advantage to be more careful and industrious. The chances of loafing, or wasting of time in any other form, are also thus minimised. Besides these, the employee who is not satisfied with the average wage earned on the day-wage system, and who possesses reserve powers for extra production by extra effort, is given a full chance to make use of his ability and earn more. If these experiments on piece-wage system result in an appreciable increase in the output, as they generally do, the employer can in course of time afford to reduce the [number of hours of work per day without lessening his normal production. The other advantage afforded by this system is that in calculating the cost, the employer's work is much

simplified owing to the fixed rate he pays per unit of production, whereas, under the time-rate the cost constitutes a fluctuating item. This factor, viz., the convenient and easy standard for calculation of the cost of production, is in itself of great advantage in these days of keen competition among manufacturers, when quotations must necessarily be as low as possible in order to secure business at the same time guaranteeing a fair margin of profit. In certain trades, particularly in the textile manufacture by machinery, piece-wage system can be employed with advantage, as here, the quantity of work done can be accurately measured. The workmen engaged in this branch of industry in Europe and America generally prefer the piece-wage method of remuneration, as they have found by experience that it ensures identical payment for identical or equivalent effort. In the boot trade also the piece-wage method is generally preferred and largely employed. On the other hand, in industries where a fair agreement between the employer and employee as to the identical payment for the identical effort or production cannot be arrived at, owing to the peculiar nature of the enterprise, the piece-wage system is objected to by the employees. This is the case where a workman has to be employed on a variety of operations in factories where the output varies from day to day, such as the engineering trade.

The disadvantages said to be inherent to the piece-wage system must also be considered. It is alleged that workmen in their efforts to produce as much as possible in the day are least likely to spare machinery, tools and raw material. It is also asserted that under the piece-wage system the quality of production may suffer. With

regard to the latter objection it might be added that in most of the trades where the piece-wage system is in force, this tendency to sacrifice quality to quantity is guarded against, both through the medium of careful inspection and by limiting of the total output per employee per day. The other danger is that the employer may cut the rate when he finds the employees earning high wages. This tendency is no doubt present in some cases, but it strikes at the root of efficiency, and only the most short-sighted of employers stoop to adopt such a dishonest course. The other drawback is that workmen are in some cases inclined to take long intervals of holidays, because they have managed to earn more and can afford to take these holidays out of their savings. The fact that this system may lead to excessive fatigue has already been referred to. This danger is eccentuated in cases where the basis on which the piece-wage is calculated is so unjust, as to force employees to work their hardest at the greatest speed in order to earn just a subsistence wage, as is the case in some of the sweated industries of Europe. With all these drawbacks a well regulated piece-wage system is undoubtedly superior to the day or time-wage system.

Mr. Cadbury in his book on "Experiments in Industrial Organization" puts the case in favour of the piece-wage system on grounds which his practical insight has helped him to so accurately gauge *viz.*, that "After a good deal of experience with thousands of piece-workers it has been found that from five to ten per cent have a natural gift for speed, and will always earn about 20 per cent above the average, upon whatever process they are

engaged. These workers pay the employers best and should be encouraged, and an enlightened employer will never grudge the extra money they earn."

## Time and Piece rates combined.

### **Progressive wages.**

Other employers besides Mr. Cadbury have discovered that a certain percentage of workmen have a special capacity for speed and will always earn about 20 % above the average if they are given the chance to do so. What is more is that even the average workman seldom gives the best result of his work to the employer unless some incentive is offered to him to do so. They had recourse to the piece-wage system described above as an improvement on the day-wage method of remuneration. One of the objections to the piece-wage system was that the employee was not guaranteed any minimum wage, and in cases where the supply of labour was abundant, the piece-wage rate was so lowered that it led to sweating and other evils. Workmen's Associations and Trade Unions began to object to the piece-wage system pure and simple and agitated for a guarantee of a fair minimum wage in connection with certain trades. This gave rise to a number of systems of payment of wage which technically came to be known as "Progressive Wage" systems, under which the employee, besides being guaranteed a minimum wage, the amount of which is based on a certain time occupied by him, is promised an extra reward in case the output in that time were to exceed the standard laid down. This reward was to be either a fixed amount or in proportion to the actual extra output. To cite an example, suppose in an engineering

work-shop a workman were to be employed to produce valves. Here in the event of his producing a larger number of valves than the standard laid down for a fixed number of hours, he gets, besides his usual time-wage, so much extra for each extra valve produced. The standard of production laid down is based more or less on the basis of approximate output which an averagely efficient workman was expected to produce in the usual course. In England this system takes up various forms. There is the system as above described under which the extra payment is made in proportion to the extra output. In other cases a fixed bonus, or premium, is paid for exceeding a certain minimum production laid down for a fixed time. In the latter case, the standard of production laid down is usually high, based as it is on the average output of a first class workman, and the object is to encourage every workman to attain that standard. The employee no doubt gets his usual time-wage, whether he attains that standard or not, but in case he does attain the same, he gets in addition the prescribed bonus. There is a further modification of this system under which a sort of race, or competition, among workmen is introduced, by which, the workman who brings out the largest output of all others during a certain time, is given a certain reward, and it is thus hoped that by making all the employees work and strive to secure the prize, the general output may be largely increased. Efficiency is also sought to be improved by other methods under which a workman is given an additional [reward for an improved quality of production. Waste in raw material is also prevented by offering premiums or rewards for saving in the use of raw materials.

**Halsey system.**

The other method commonly known as the Halsey system after its inventor Mr. Hasley, is one, under which a standard output, based on an average workman's result of past efforts is laid down, and every workman who produces that much, within the time laid down, is rewarded according to the actual time saved. This system encourages every workman to try his best and earn the premium. In laying down this standard, care must be taken to fix an output which is a fair one, which an average workman generally produces, as otherwise if too high a standard is laid down, the majority of workmen might lose heart after having vainly tried to attain the same by repeated efforts and may give up trying to increase their output or raise their speed. The premium fixed should also be moderate and not very high, as otherwise, the employees may begin to earn very high premiums to the detriment of the employer, who will find it very difficult to improve matters by trying to cut down the rate. It is always easier, and more encouraging, if a moderate rate of premium is gradually increased as circumstances permit, but the cutting down of a rate, which was through mistake originally fixed at a higher scale strikes at the root of efficiency and leads to heart burning and troubles. In the words of Mr. Halsey: "If the premium be cut, the workmen will rightly understand it to mean, as under the piece-work plan, that their earnings are not permitted to pass a certain limit, and that too much exertion is unsafe. The very purpose of the plan is to avoid this by so dividing the savings between employer and employee as to remove the necessity for cutting the rate, and hence enable the workman's earnings to be limited only by his own ability and activity. The

baneful feature of the piece-work plan is thus completely obviated, and instead of periodical cuts with their resulting ill feeling, the premiums lead the workman to greater effort, resulting in a constant increase of output, decrease of cost and increase of earnings”.

### **Taylor system.**

Under the Taylor differential piece-wage system, invented by Mr. Fredrick N. Taylor, a standard of work is laid down which a first class workman is expected to produce or finish within a certain time. If the workman finishes the work in that time he is given rapid promotions. If on the other hand he fails in that attempt his wages are proportionately cut. Here of course the daily task is clearly laid down for each man, which standard is arrived at after much care and deliberation and the main object of this system appears to be to encourage the best class of workmen, as opposed to inducing those of a lower calibre to improve themselves.

### **Collective Wage Systems.**

The various forms of remuneration of workmen as dealt with above are shown to apply to individual workmen. These methods are improved upon and a group of workmen is made to work on methods which are more or less applications of the system described above, the only difference being that they are applied to groups instead of to individuals. They are known under designations such as (1) Collective Task-Wage, (2) Collective Piece-Wage and (3) Collective Progressive-Wage.

*Collective Task-Wage* :—Here a group of workmen are given a set of work which they are to finish by a fixed time. In case they complete the work within the time

allotted they are paid the amount of wage agreed to. If on the other hand they fail to complete the same, their wage is proportionately cut. There is a further stipulation that no extra payment is to be given for the excess produced.

*Collective Piece-Wage* :—Here also the principle as applied to the piece-wage system described in case of a single employee holds good. The difference is that a group of workmen carefully selected to do a set piece of work is employed, who are to be paid a lump sum in proportion to the actual production turned out. This lump sum is to be divided among the individual members of the group in proportions fixed beforehand according to the nature of the work on which they are employed. This method of remuneration is largely applied in Europe and America in ship-building trade, glassworks, dock yards, etc., with excellent result.

*Collective Progressive Piece-Wage* :—Under this method a group of employees, whether of equal merit or otherwise, is employed at fixed wages at so much per day or week. A minimum production for each group is laid down which if exceeded, entitles the group to a premium proportionate to the excess. This premium is divided among the workmen according to the recognised merits of each member of the group. The wages fixed per time must be paid even where the requisite minimum is not reached. Further modifications of this system are also in work with which we need not deal here.

### Co-operation.

The chief idea of co-operative production is to make the workmen shareholders in the business, whereby, besides



getting their usual wages they share in the results of the net profits. The difficulty in the way of the successful working of the system lies in finding sufficient capital from among the workmen themselves. To meet this main difficulty, various modifications have been introduced, some of which strike at the very basic principle on which co-operation is claimed to rest. According to Mr. David F. Schloss in his book on "Methods of Industrial Remuneration", which is one of the best books written on the subject, "the leading ideas of co-operation so far as concerns the remuneration and organization of industries are, (a) That each group of workers is to be associated by their own free choice, (b) that these associates shall work under a leader elected and removeable by themselves, and (c) that the collective remuneration of the labour performed by the group shall be divided among all its members (including their leader) in such a manner as shall be arranged, upon principles recognised as equitable by the associates themselves."

Mrs. Fawcett gives some examples as to the experiments successfully tried on these lines in her little book on "Political Economy." The first is the case of the Hebden Bridge Fustian Manufacturing Society which began work with thirty workmen who agreed to combine labour and to save three pence a week each, in order to get a small capital to set up Fustian cutting on their account. The capital required was £1,000, which was expected to be collected by contributions from the workmen themselves. Great difficulty was experienced, however, in raising this amount and eventually the public had to be asked to subscribe towards this capital by an issue of shares. The workmen were given a bonus, besides their wage, which bonus was allowed

to accumulate as their capital on which they got a dividend out of the profits. The bonus itself was paid to workmen in proportion to the profits, varying with the quality and quantity of work produced by each of them, and as soon as the same reached the figure of £ 20, the workmen were allowed to draw the extra bonuses.

The other example cited is that of co-operative creameries as originated by the Rt. Hon. Sir Horace Plunkett. In the words of the author "The plan pursued is to establish a creamery, which is really a butter factory; the farmers in the neighbourhood are invited to become shareholders, in the proportion of a £1 share for every cow they possess. All the shareholders send in their milk once or twice daily to the creamery; it is immediately measured, tested and paid for in proportion to the quantity of cream it yields, and the butter milk and skim milk returned. The whole of the cream thus collected is converted into butter, on the most approved methods. The profits made are of course in the usual course distributed by way of dividends among the farmers themselves who are the shareholders.

### Profit Sharing.

Profit sharing is a system under which the capitalist allows his labourers a share in the profits over and above their wages. It is thus attempted to give the workmen a direct pecuniary interest in the profits made by the enterprise and thus stimulate their efficiency all round. They are thus likely to waste as little time, raw material and motive power as possible, and try their best to save tools and machinery. The net result of their efforts, it is expected, would more than compensate the employer sufficiently for the amount paid out as profits to workmen. The in-

ventor of this idea is said to be the French house-painter M. Leclaire, who calculated that if he could make his employees waste less time, and to economise the use of raw materials and tools, he could effect a net saving of over £3,000. He thus offered to pay a portion of it to his workmen as a share in the profits. These profits are either paid out yearly, or a portion or whole of it is placed to the credit of the employee to create a sort of provident fund, which has the additional merit of preventing him from leaving the service of his master. According to Mr. Sedley Taylor, whom we have already quoted, "The increased activity of the workman, his greater care of tools and materials entrusted to him, and the consequent possibility of saving a considerable part of the cost of superintendence, enable profits to be obtained under a participating system which would not accrue under the established routine. If these extra profits were to be wholly divided among those whose labour produced them, the employer would still be as well off as he is under the existing system. But assuming that he distributes among his workmen only a portion of this fresh fund, and retains the rest himself, both he and they will, at the end of the year, find their account in the new principle introduced into their business relations."

The usual method employed is to fix a reserved limit out of profits, which is to be applied towards the payment of partners or proprietors of the concern by way of their share of profits, in consideration of their capital employed, plus salaries for the actual services rendered by them as managing partners. If the said reserved limit is exceeded, the employees share in the excess as arranged. Of course

much would depend on this reserved limit, and great care and careful calculations on the basis of past experience have to be gone into, before arriving at a limit which will be fair to both these parties. In other concerns, instead of providing for a division of profits among the employees in general as of the whole establishment, it is arranged to divide the business into departments, and then to prepare a system under which the employees are given an interest in the profits made, which are calculated on the basis of the working of each department.

There are other cases, where the employee is made to purchase a share in the capital in one form or other by permitting his profit bonus to be credited to him, instead of being paid out in cash, until a certain minimum is collected, after which, the excess is allowed to be drawn out. This takes the form known as profit-sharing and co-partnership. Mrs. Fawcett in her excellent little book on "Political Economy" speaks of the instance of the Metropolitan Gas Company as follows:—"In the year (1889) the managing director and chairman of the company Mr. (now Sir) George Livesey, conceived of the idea of profit-sharing or co-partnership as a means of securing mutual confidence between employers and employec, and of inducing the men to take a real interest in the welfare of the company. The Gas Workers' Union and Coal Porters' Union had lately been formed, and the companies were continually harassed by what they felt to be unreasonable demands on the part of these unions, and also by the evidence of hostility and antagonism which they constantly displayed. In October 1889, Sir G. Livesey made to the whole of the workmen, numbering about 3,000, the following offer; those who would sign an agreement to work upon given

terms for twelve months were offered a share in the profits of the company in the form of a percentage on their wages; and in order to make the advantage of this offer at once a tangible reality, its effect was to be retrospective; that is to say, the company, in October 1889, offered to every man who accepted the agreement, and who had been three years in their service, a bonus of 8 per cent. calculated on one year's wages; thus if a man were receiving 30 shillings a week, he would, if he accepted the company's terms be at once credited in their books with a sum of rather more than £6; and besides this he would in future participate in the profits earned in proportion to his wages. About 1,000, out of 3,000 men employed by the company, accepted this offer, and the sum credited to them by the company amounted to £8,000; ..... the participation in profits by the workmen gave them a direct pecuniary interest in trying to make gas as cheap as possible; that is, it was a constant stimulus to them to work with efficiency and economy." According to Mrs. Fawcett the profit sharing principle has since steadily developed in this company side by side with its growing prosperity."

The drawback peculiar to this system of profit-sharing is, that it does not give the workmen any voice in the management, and that under it the more capable workmen receive the same remuneration as that paid to the less competent, a factor which is likely to discourage superior men. According to Dr. Shadwell (*Industrial Efficiency*) "From the efficiency standpoint it is not so bad economically as ordinary time wage condition because the earnings of all alike depend directly upon their exertions. It does not differentiate between individuals according to capacity."

## Co-partnership.

In case of co-partnership proper, workmen are represented on the board of management and receive a share of profits. According to Mr. Chapman in his book on "Outlines of Political Economy", "It implies both control sharing and profit sharing." Co-partnerships have met with greater success than productive co-operation or profit-sharing pure and simple. This system has proved most successful in businesses where a constant change of workmen is detrimental to the efficiency and success of the business, and it is claimed for it that it creates an interest for the business among workmen of a much higher order than that created by the other systems dealt with above.

## Commercialisation of labour.

Under this system the manufacturer contracts with the Trade Union for a certain quantity and quality of production at an agreed price. The manufacturer provides the factory, machinery, plant, raw material and skilled supervision and the Union finds and pays the labour. The drawback in the working of this system according to Dr. Shadwell is that, "It lacks the distinctive advantage which attaches to profit-sharing. This lies in giving to the wage-earners a direct interest in the success of the undertaking as a whole, which is quite a different thing from the differential incentive of the individuals. The latter elicits the best effort of each man by paying him accordingly, but it offers no incentive to him to promote the interest of the whole by care of machinery, for instance, or by economy of power or raw material. It may even tempt him to be particularly extravagant or careless about these things in the effort to increase his own output." The main object sought

to be attained by this method of remuneration is to avoid all possible cause of friction between organised labour and capital by leaving in the hands of the Trade Union the work of remunerating each individual workman.

### **Housing of workmen.**

The housing of workmen is no doubt one of the most important factor of health and the continued state physical fitness. This is now receiving greater attention than it did in the past and the modern factory planning takes this factor increasingly in calculation. Now-a-days the founders of factories locate the same in the most advantageous site in which the convenience of market, power, transportation facilities, labour and raw material are taken carefully into account. For example, in an industry engaged in the work of the canning of fruits and vegetables, the factory location has to be arranged in a place which is situated within as easy a reach of the sources of supply as possible, whereas, in the case of iron industries, the works have to be planted in the vicinity of the mine, as the transportation of a large quantity of raw material to any appreciable distance would involve a heavy burden on the cost of production and manufacture. Where Factories and works have to be necessarily located in centres which are far away from the centres from which labour can be recruited, special arrangements have to be made for the housing of the employees who are brought from long distances. In other types of industry like the cotton or woollen industry, the cost of transportation is so comparatively light, that the factories for the working of such industries are located far away from the

centres of production of raw materials. In such cases the manufacturer generally prefers suburbs to the city or the country side. The city offers no doubt an advantage in the sense that skilled, as well as unskilled labour, is generally obtainable in good quantity, because there a family made up of grown up people as well as children can find situations suitable to each, which a location far away from the city will not admit of, particularly where the factory is isolated from other industrial enterprises. The city location entails however higher rent of land and building compared to that in the country, and thus, the factory buildings have to be cramped for want of space and on other considerations of economy. The location of industries in the city also gives rise to objections on the question of the general health of its population, with the result that, as the cities go on expanding, factories and works are forced, through the action of the local authorities, to move out of the centre of population. The housing accommodation for employees in the city is also far from being satisfactory.

The country side offers comparative advantages from the point of view of cheapness of land and site and the wages too are generally cheaper. The difficulty experienced is that skilled and superior labour is reluctant to reconcile itself to an isolated existence in the country side, and in order to make their prospects more inviting, high salaries have generally to be provided for this class of labour.

The suburb however combines the advantages of a city as well as a country location. Its situation in the vicinity of a city makes it more acceptable to skilled labour. The land and site are comparatively cheap. It also affords suffi-



cient opportunities for recreation in the open fields, where the workmen can settle down in a sort of a garden city built for them, enjoy plenty of fresh air and take part in outdoor games during their leisure hours. Thus the chances of degeneration of the labouring population as marked in connection with all city industries, can also be minimised. A model factory town should, according to the best authorities, be built or allowed to grow up in the suburbs, particularly in connection with industries where the location has not, as in the case of industries like the iron industries, to be compulsarily fixed far away from the centres of population.

In older forms of industrial organisation, however, where the industries are located in towns and cities, the housing accommodation for workmen is unfortunately left to be provided for by investors who specially build these houses for profit and try to make their investment as paying as possible. The commercial zeal of the investors of this class has frequently led to the building of houses on plans where modern sanitary principles are for the most part neglected. In Bombay we have a number of buildings used by our working classes as residence which in European countries would not be tolerated for a day. Not only are these chawls far from being sanitary from an European stand-point but they are also woefully overcrowded. This is no doubt most adversely affecting the health of our workmen, with consequent injury to the efficiency of our labour. Nothing could be more desirable in the interest both of efficiency and industry, than to see these insanitary houses giving place to buildings on up-to-date plans specially built for

our workmen. In Europe this ideal is being rapidly attained according to Dr. Shadwell as follows:—

(1) *Selp-help*:—Agencies which include building societies, co-operative societies, friendly societies etc., started by the working classes themselves through the help of various labour organisations that have grown up in connection with the various industries there.

(2) *Philanthropy*—which is represented by the employers of labour who voluntarily provide cheap and sanitary buildings for their workmen at moderate rents.

(8) *Socialism*—which means State or Municipal efforts at providing cheap residences for the working classes within easy reach of industrial centres.

All the above named agencies are at work in Europe and America where labour finds increasing facilities with regard to its housing. The English and American working classes however, are gradually getting so well organised in these countries, that in course of time State help or philanthropy will have very little work to do as they are, in return for an adequately higher wage, attempting to provide their own housing as well as welfare institutions. The beginning was no doubt made on the patriarchal system which is giving place to selp-help. Our workmen will have to be helped in the same manner. The patriarchal system in the form of employers' philanthropy and state-help will have to be the starting point with us, as in Europe and America, until our labour arrives at that stage of advancement and organization, when it can be looked upon to provide its own wants in this direction by

self-help. To quote Dr. Shadwell once more a "patriarchal order of things existed before the organisation of society came about." "The labour in Europe demands to-day not favour but justice, not gifts but a fair share of takings, with the means and the opportunity to provide its own welfare institutions. This is indeed a sound, wholesome and proper aspiration inseparable indeed from the organic development of society. Nor is it one to which the benevolent can object, for benevolence includes justice and liberty. Those who wish well to others, wish them at least that. What an honest benevolent employer really aims at, is justice. In the older state of society it is attained in one way, in the newer, in another." That is a state of affairs far off from the reach of our un-organised, uneducated and relatively backward labour. At present our Indian labourers want very badly the sympathetic and nursing care of their more enlightened countrymen, particularly their employers, who are no doubt in a position to assist them in a large way in this direction, in the common interests of labour in particular, and that of the infant industries of India in general.

### Cost of living.

This element also plays a significant part both in the determination of the standard of an adequate "living wage" for workmen and the building up of their physique. It is no doubt to the interest of the efficiency of the industries concerned that the necessities of daily life, particularly the articles of food and clothing, should be procurable by the working classes at the most advantageous rates. It is hardly necessary to state that well fed, properly clothed and adequately housed labour is generally able to

maintain its standard of efficiency at a uniformly high standard. If therefore, these necessities are procured at rates which are the most advantageous from the point of view of labour, the wages of labour are also likely to be cheaper. In these locations, particularly where owing to the plentiful supply of labour, wages are rather low, the physique of workmen generally deteriorates owing to the want of sufficient nourishment, the insanitary conditions under which they are forced to live and the inadequate protection afforded by cheap garments in cold and damp weather. In such localities the need for an organised effort with a view to supply these necessities in a form most wholesome, as well as cheap, is no doubt greater when looked at both from the moral as well as materialistic standpoint. The employers of labour realised this in European countries some years ago and started special shops and stores where foodstuff and clothes, suitable to the requirements of the working classes, were offered for sale at wholesale rates. This movement at a later stage developed into an effort to supply its own wants, on the part of organized labour itself, with the result that co-operative stores run by labour associations are quite a familiar adjunct to modern industrialism.

The cost of living for our Indian labour is perhaps the lowest while compared to any other industrial country in the world. The effect of this on efficiency has been already dealt with in the early part of this chapter. Grain and cloth shops for the working classes have of late been opened under the patronage of certain well meaning employers and enthusiastic public men which are bound to do an amount of good. The difficulty experienced

in this regard, at least in Bombay, is largely due to the system of borrowing and credit prevailing among the working classes which keeps them perpetually indebted to the grain dealer, who also acts as money lender. These grain-dealers keep on supplying grain, even cloth in some cases, on credit. They also advance money on interest in cases where sudden illness, or the death or marriage of a member of the family entails too heavy a burden on their very modest family budget, which amount is recovered by them gradually. In order to make these workmen buy at, and deal largely with, the grain shops opened specially for them, some system will have to be devised which would help them to clear their accounts with the grain dealers and money lenders, and at the same time enable the employees to secure a loan on the most advantageous and easy terms in case of contingencies of the type dealt with above.

### **Constitution and the physique of workmen.**

The physique of the workmen is also one of the factors which influences their efficiency. Persons endowed with great vitality and enduring powers can withstand mental and physical strain for a longer period compared to those less fortunate in that regard. In certain classes of heavy work where lifting of heavy weight etc., has to be practised, the workmen selected are those gifted with strong constitutions. Even in the ordinary walks of life, not excluding even the learned professions, a robust constitution is an advantage of no mean value. The items that play the

most important part in relation to the physique of a race are, (1) Climate, (2) Care of women and children and their mode of life, (3) Early education and care taken of the average youth during his school and college life, (4) Quality of diet and the mode of its preparation, and (5) Observance of the laws of hygiene.

The influence of climate on constitution or physique is too well known to need a lengthy comment. In India the various provinces differ so widely in their climate that we commonly see a particular class, or race, hailing from a particular district, enjoying a sort of monopoly for particular types of work for which they are physically best fitted. Mr. Sirkar in his book on Indian Economics from which we have had occasion to quote already, states, that, "Bihar peasants are most industrious and patient, who have hardly any equal elsewhere in steadiness, intelligence and self-reliance. But in the pestiferous climate of Bengal and Assam they have grown rather languid and fond of repose. The labourers of Bombay and Upper India are strong and hard working."

The influence of care on women, the mothers of the future generation of workmen, has already been dealt with. The same zealous regard must be paid for the health and well-being of children employed in factories, farms, mills etc., as they are to provide our adult labour in course of time and are to be the parents of the future generation of workmen. The various factory laws as well as special legislation passed for the protection of children aims at the same good result. All possible attempts should be made for providing the best means for the recreation of children employed in industries, and play-grounds

and special accommodation provided for them. Arrangements ought also to exist for imparting elementary education to this class of labour during leisure hours, specially provided for by legislation. Much also depends on the care taken on boys while at schools and colleges. If they were to be burdened with a heavy curriculum, it would no doubt adversely affect their physique, but the tendency to cram through the whole course prescribed for the study of a couple of years in the last few months of the final examination, has perhaps done more damage to the constitution of our young college students than all other factors taken together. This tendency to cram is unfortunately noticeable all over the world. In our Indian colleges also, a good proportion of students do not work up to a fixed time-table throughout the course as they are expected to do, and attempt to cram through their examinations at the last moment. A regular and sustained study with a view to acquire a deep knowledge and develop the intellect by a graded mental exercise thus acquired is appreciated by a comparatively small number. The result is that our young men from colleges, the principal source of supply of our intellectual labour, are physically as well as intellectually not uniformly as strong as we should like them to be.

The other factor which affects national health is the nature of diet and the mode of its preparation. The author does not propose here to enter into a long discourse on the merits or otherwise of vegetable as compared to meat diet, but it cannot be denied that in order to sustain the constitution in the fittest condition the diet should be so prepared as to enable the system to imbibe the best

nourishment out of it. If the culinary art is developed, as is frequently the case, more with a view to please the palate than to answer the daily requirements of the constitution, the same is bound to affect health and impair the efficiency of the persons concerned.

### Organisation of labour.

Labour has organised itself under associations and unions for self-protection as well as self-help. The very origin of the Trade Unions may be traced to the early conflicts between capital and labour in Europe and America. Separate unions are formed in connection with each industry. The early history of Trade Unions is full of bitter struggles both against the employer and the obstacles presented by law in force in those days. They have managed however to get over all their difficulties and occupy to-day a dignified position full of power and influence. The good influences exercised by these unions according to the best authorities are as follows:—

(1) They help to keep the wages on a uniform level and that too according to the actual economic value. This has to a large measure made the employer's work easier, as in the early days of the Trade Unions the employees, seeing their power and strength as a united body began to extort unreasonable wages, with the result that industry itself suffered, thus reacting on the workmen themselves. The Trade Unions and their leaders gradually began to appreciate the value of amicable settlements, so that to-day they hesitate to resort to this extreme course without exhausting all efforts to a more peaceful settlement.



(2) They also enforce a spirit of self-reliance and self-respect among workmen and thus build up national character. A self-respecting workman disdains to receive anything by way of gift or alms but wishes to be paid a fair share of taking as per the actual work produced.

(3) Being united under the banner of an organised body, they are able to negotiate with the employer with a status and self-respect. They are in a position to bring pressure on the employer to see that the factories are kept in a healthy condition and that the hours of labour are conveniently arranged. They are in a position, in case of a grievance, to represent their case through the Union, which prevents unnecessary fight and disruption of work. Any unreasonable demand on the part of any particular set of workmen when brought before the Union is bound to be rejected by its committees, which is selected from the most intelligent of workmen who through experience, observation and voluntary study of the economic situation are able to fully appreciate the problems set before them.

(4) Formerly, unorganised labour was not able to command the advice and assistance of experts, and being itself either illiterate or half educated, could not act with any substantial result. To-day the Trade Unions can get the best professional assistance and are thus able to meet the employer on an equal footing.

(5) The Trade Unions are now sufficiently advanced to be able to undertake the work of improving the efficiency of their members by professionalising their respective occupations, and laying down a standard

of efficiency and experience as a condition precedent to full membership. Thus the "idler and the incompetent have no place in the Union."

(6) The advent of Trade Unions has also raised and improved the general standard of living among the European and American workmen—an advantage of no small value in countries where the systems of incentive piece and time wages, on the most scientific principles, are now in full application to the advantage of both the employer and the employee.

(7) Trade Unions with their growing power and influence, as well as the proper appreciation of the economic condition of industries and the position of the capitalist in relation to industries, have brought into existence conciliation and arbitration boards, composed of the representatives of both capital and labour, thereby leading to a better mutual understanding between these two hitherto conflicting factions.

These are no doubt the advantages. The disadvantages, as stated by various authoritative writers and thinkers seem all to arise through the misuse of the powers of combination which these Unions represent. A powerful Union of workmen in any trade or industry, particularly in one like the coal mine industry, may through an unreasonable demand for higher wage bring not only the coal trade, but also all other industries depending on the supply of coal, to a standstill, by going on a strike on refusal of their unreasonable demand. Thus the innocent workmen engaged in other industries have to suffer for the obstinacy of a class in whose quarrel they have no share. In case this

unreasonable class were to succeed in getting unduly enhanced wages, and thereby bring about a rise in the price of coal, it might adversely affect other industries depending on coal in these days of keen industrial struggle between nations, particularly in foreign and colonial markets. This might either result in the ruin of the industries concerned, or in the reduction of wages of workmen therein who may not be equally organised. In case the workmen engaged in industries where the standard wage is lower, change for those where the wages have been thus artificially forced up, the members of the Union concerned attempt to adopt the equally unreasonable and arbitrary course of limiting their number by refusing admittance into their Unions, and of preventing the employers concerned from employing these non-unionists under the threat of a general strike. They also indirectly force the employer to engage a number larger than is absolutely necessary, through rules under which a superior workman is prevented by his Union from undertaking a particular piece of work without being assisted by an allotted number of juniors, to each of whom the employer has to pay a wage as per a standard fixed by the Union.

In spite of all these dangers and drawbacks, the Trade Unions can justly claim that the balance works out in their favour, and considering the fact that with the growing experience of these bodies, whose members have considerably advanced through the superior education brought within their reach in modern times, many of the mistakes of the past are not likely to be repeated. To-day both the employer and the Unions understand each

other better and it is increasingly recognised that the interests of capital and labour instead of being in conflict ought to be identical and in harmony for the common good of all.

## **Education and Training of Labourers.**

We have already remarked on the influence of primary education on the efficiency of labour. Education enables a workman through improved intelligence, to do his work intelligently, using his brain as well as his hands, and at the same time it makes it very easy for his superiors who have to guide him as to his daily work. Drunkenness and other vices gradually disappear with the spread of education among this class and the workman becomes self-respecting and honest. The standard of living is also likely to rise with the spread of education and an educated workman is more likely to appreciate the advantages of earning a higher wage through improved production, thus affording a wider scope to the activities of the scientific manager. Education enables him to read and understand manuals and booklets dealing with the technicalities of the work he is engaged in, and in case he happens to be a genius, his chances of bringing his natural faculties in full play are vastly increased, thus paving the way to some important invention which may radically affect the fortunes of the industry concerned.

Many old industrial establishments in Europe recruit young labour from boys and girls who have completed their education up to a certain standard at schools, and then arrange for their special training in the technicalities of the work they are to be engaged in, through the medium of

instructions imparted to them, between working hours, in special classes conducted by specially engaged experts. This theoretical and practical training enables the institution to maintain an adequate supply of efficient employees, who by a scientifically arranged system of remuneration, pensions and provident fund schemes, are induced to take a life long interest in the enterprise as a whole.

## CHAPTER X.

### Scientific Advertising.

#### Its advantages.

Advertising is one of the most important steps in business organization known to the modern times which has developed to such a high pitch that a careful study of the subject is as essential as that of any other. Advertising in a more or less passive form dates from the very origin of the human race, the only difference being that the more active and creative form of it has come into prominence during the later part of the history of human civilization. No business or profession can exist, or has ever existed, still less expanded, without the assistance of advertising in one form or other. The older professions of Law and Medicine have always looked upon advertising in its active form with great disfavor, though even here the members of the profession have to resort to the more passive form, *i. e.*, of advertising through the medium of social or professional intercourse, activity in public life, or recommendations of friends. The modern practical advertiser, though quite familiar with these old fashioned methods, resorts to the more active forms, applying to it the results of a scientific study of human nature as well as his

knowledge and experience as to the requirements of the markets concerned with decidedly better results.

It is frequently asserted by some businessmen that they never advertise. The statement may be accurate when the active advertising propaganda is taken in view, but if examined more closely with regard to the passive forms of advertising it is found to be wholly erroneous. If our friend who makes such a bold assertion, happens to own a shop, the very sign board, the prominent situation he has chosen in selecting its site, the display of goods therein, are all steps in advertising. Examples can of course be multiplied on the same line of argument. These are however, as already remarked, too old fashioned methods for the natural and healthy expansion of modern business, and it does not require lengthy arguments to convince an average man as to who should get the better of the other in case there are two men trading in the same line, one of whom is contented with these old fashioned methods, whereas the other adopts the most scientific and up-to-date ideas. The old methods of pushing goods through the medium of a regular establishment composed of a large number of commercial travellers, as well as selling agents in the principal centres, were, and wherever these institutions are still maintained are, comparatively very expensive. Besides, they leave the manufacturer completely at the mercy of his wholesale agents and travellers, who pocket large commissions and give him as little opportunity of getting into personal touch with the real consumer as possible. This drawback is more apparent when one remembers that a large number of manufacturers manufacture to order under instructions from wholesalers, on which the latter's registered trade mark, or brand, has to

be printed or affixed. The consumer recognises the article by the brand, and is generally kept in abject ignorance as to the name of the maker. Through the medium of scientific advertising however, the manufacturer is now in a position to bring himself in full prominence under his own name and trade mark, so that he is not only independent of the wholesaler who usually pocketed over 50 % margin, but on account of the demand thus created the retailer is forced to stock the goods. Advertising is thus looked upon as an investment and not as an expense. The goodwill which is thus built up by a well directed advertising campaign is frequently of inestimable value. From the consumer's point of view also, advertising is beneficial. At first it was thought that advertising meant increased cost which the consumer had to bear in the long run. It is being now increasingly realised that that was an erroneous conception. A manufacturer by a course of scientifically regulated advertising campaign generally increases the demand for his production, which he is thus able to manufacture on wholesale lines at a relatively reduced cost by the use of labour saving machinery, motive power etc., factors which he could not take advantage of when his sales were limited and thus he is naturally in a position to offer the same at a lower price. He also brings himself in direct touch with the retailers and consumers as we saw above through advertising and is thus able to get rid of wholesale agents who used to pocket profits of 50 % or over. Thus a demand is created which did not exist before, for advertising brings the advantages and uses of the articles concerned to the notice of an ever increasing number of the readers of the daily papers, weekly or monthly magazines, etc. In

the words of Mr. E. S. Hole in his book entitled "Advertising and Progress" written in defence of scientific advertising "The water-butt resting beneath the rain-spout, however, is <sup>analogous</sup> to the business of the advertiser. Just as the spreading roof-tops collect the rain-fall from a wide superficial area and bring it to a control store, so the effect of advertising is to gather custom from a wider field than is represented by the mere name plate of the manufacturer or storekeeper. By means of widespread and effective announcements, or by means of publicity confined to a more limited area, the advertiser succeeds in attracting a volume of custom which, but for advertising, might have remained in ignorance of the very existence both of the advertiser and his wares. The modern seller realizes that he often has to seek a buyer instead of waiting for the buyer to seek him, a thing which might never do."

Many an Indian Manufacturer has succeeded in producing goods of almost the same quality as the imported article, and in some cases even better, but for want of a proper appreciation of the potentiality of a properly directed advertising campaign, had to close for want of demand. He expected the customer to come to him instead of creating customers and going to them. A market for new goods is created to-day through the medium of advertising. The other old fashioned methods of purchases and sales through travellers, consignments etc., are too slow and expensive for modern requirements. They may be in some cases employed as useful adjuncts to an advertising campaign. Tried by themselves they either



fail, or produce results which are insignificant compared to the cost and time involved. Of course the article which is advertised must itself be good, as otherwise a reaction may set in, where advertising will not only fail, but actually help to injure the business advertised. If however, the article offered has substantial merits behind it, a well directed advertising campaign will not only bring in immediate results during the course of time the campaign is being waged in full form, but its effect will radiate even after the advertisements are stopped. In fact the effect will be more or less permanent. Our Indian manufacturers produce many useful articles of embroidery, silk, scents, curios and furniture for fashionable drawing-rooms, crockery, glassware, etc. How many of us know where to buy them? No sustained effort seems to have been made by these makers, or even wholesalers, to advertise them. Advertising is expected to fulfil a twofold purpose viz., (1) to bring goods to the notice of people who are using them and (2) to induce those who do not use these articles to use the same. In fact the second of these two main purposes is the most important. Efforts to attain either of these are almost insignificant on the part of our indigenous manufacturers, with the result that we have not yet risen to our full height as a manufacturing country. The instance of the Murshidabad Silk Handkerchief must be fresh in the minds of many of the readers. A friend of a high official of Bengal sent a silk handkerchief of exquisite design, which he had bought in England as one made of Indian silk, with a request to get some more. The official concerned did not know where to buy the same and had enquiries

made all over India as to its place of origin without success. After having exhausted all his resources, the firm in England which used to sell them was approached as a last resort with a request for the name of the maker, and to the surprise of all parties—particularly to that of the official concerned,—Murshidabad was named as its place of origin, which happened to be situated in the province over which the official himself held sway. This is perhaps an exceptional incident. Still one who has paid the slightest attention to this subject must admit that our production is not advertised and pushed to the front as it ought to be and that the need for an organized effort in that direction is urgent. According to Dr. Dill Scott in "The Theory and Practice of Advertising" 600,000,000 dollars a year are spent on advertising in America, which figure must have expanded largely by this time in a go-ahead country like the United States of America, considering that the learned doctor published his work some years ago. In England a hundred million pounds a year are said to be spent on advertising. These figures indicate the extent to which the pulling force of advertising as a selling factor is appreciated in England and America. According to Mr. Truman A. Deweese in his excellent book entitled "Practical Publicity," "Before advertising was developed into a fine art, and before it became a factor in the commercial world, the business of the manufacturer and merchant was to supply the normal needs and desires of the human family. Merchandising was bounded by man's necessities and by his meagre knowledge of the luxuries which he deemed within his reach. Modern advertising has made the luxuries of yesterday, necessities of to-day. It is something more than a "drummer" knocking at the

door of the customer something more than mere salesmanship on paper. It is a positive creative force in business. It builds factories, sky-scrapers and railroads. It makes two blades of grass grow in the business-world where one grew before. It multiplies human wants and intensifies human desires."

### **Drawbacks complained of examined.**

The chief argument against advertising as a step in modern business organisation rests on the favourite plea of "waste" of the economic theorists. They argue that money spent on advertising forms part of national waste and that the cost falls on the consumer. Writers of eminence like Messrs. Chiozza Money and Hartley Withers have argued on the same lines, though Mr. Withers has to admit the services rendered by advertising in connection with new inventions and improvements. If we were to strictly follow the argument of waste in all departments of human activity to its logical conclusion, there are innumerable channels of expenditure which the modern man indulges in, falling under that heading, which if removed or done away with, will reduce mankind to the extreme necessity of using bare necessities which in the language of the classical economist of the old school fall under the narrow limits of what he calls "productive consumption." Life under such circumstances will lose all its charms and set one thinking whether the same is worth living at all. Human beings would be converted into wealth producing machines without being permitted to think of the pleasures arising out of its use. Fancy having to cut ourselves short with regard to boots to one pair per head, and that too

selected from the stand-point of their durability, preferably with iron platings for the protection of the soles. Costly silk, cashmere or woollens would be tabooed, for clothes made out of the coarsest and cheapest materials with capacity for wear for years would be considered acceptable under the circumstances. No theatres and cinemas, no ice-creams and sweets, no lace and trimmings for the fair sex. They are all waste, unproductive consumption, according to the bigoted theorist. Is it therefore surprising to find him in a determined opposition on this question of pushing goods through the medium of advertising? Advertising creates a demand, while the theorist wants us to cut short our wants, for every additional want according to him means waste. Whereas looked at from the standpoint of the practical man of the world, advertising has done an amount of good to the industries and commerce of countries which have made the most scientific use of it. We have seen how advertising has helped to bring the manufacturer and consumer close together and has thereby, in a large measure, reduced the proportionate cost of maintaining wholesalers, middlemen and travellers. We have also seen how the cost of production itself has been proportionately reduced through the increased demand necessitating production on large lines. It has helped to raise the standard of living among the middle, as well as lower classes, by intensifying their desire for greater comforts. A higher standard of living is now recognised as a sign of progress in human civilisation, and as we have already noticed in the chapter on "Industrial Organisation and Labour Efficiency," it is a source of industrial strength in a country where a "Scientific Management" is anxious to make use of the incentive wage methods to the full. The

introduction of inventions like safety razors, incubators, hand-cameras, phonographs, motor cars, both for luxury and industrial requirements, etc., would have been difficult, nay impossible, without the help of scientific advertising. Even the middle and the working classes in European countries have learnt to appreciate the luxury of possessing gramophones, hand cameras and safety razors. The gramophone has also entered the homes of our Indian workmen, who find in it an excellent medium for recreation and amusement after a hard day's fatigue. A very useful article like the sewing-machine owes its large sale, and consequent cheapness, to the advertising propaganda of the Singer Sewing Machine Company, which has brought it within the reach of the poorest classes in the most out of the way places. To the advertising genius of Sir Thomas Lipton is due not only the success of the gigantic enterprise which goes under his name, but also the facility with which the consumer gets a standardised quality of tea at a comparative low cost. In times happily past, our forefathers were at the mercy of their grocers for the supply of a fairly good quality of tea and were frequently disappointed. To-day an average consumer buys his favourite brand and knows that the standard quality is always uniform. Advertising has thus helped to standardise the quality of the various articles of consumption and a good manufacturer is always zealous to see that his standard quality never depreciates. The use of cocoa has spread all over the civilised world, thanks to advertising. It now forms a substantial and cheap diet for the working as well as the middle classes of Europe. The gigantic industry built up by the world-famous firm of Messrs Cadbury maintains a huge staff and supplies the best quality of

cocoa and chocolates at a reasonable price to consumers all over the world. In the boot trade also, all classes in Europe prefer to buy brands most familiar to them which have stood the test of experience, instead of relying on the irresponsible cobbler or the shoe-maker round the corner. The type-writers, so indispensable to-day, owe their success to the long and laborious advertising campaigns carried on by manufacturers. The world is happier for possessing these excellent mediums for recording messages, though perhaps the sentimental theorist regrets the disappearance of the cheaper medium viz., the quill and the ink pot. These machines actually cost £ 30, when not advertised, advertising by creating a demand reduced the cost to £ 20. Has not advertising enabled travelling agencies like those of the famous Messrs. Thomas Cook & Son to kindle in the heart of the poorest citizen in England, America and even in conservative India, the love for romance involved in travel to foreign lands? The inestimable addition to the national wealth and national income which the improved knowledge of these travellers must have helped to build up can only be imagined. Many a traveller who combined business with pleasure would never have left his comfortable arm-chair, had it not been for the advertising efforts of the indefatigable Cook and his wonderful organization, which has made travelling a pleasure instead of a pilgrimage full of hardship and inconvenience.

It is being generally recognised by men of experience that owing to the keen competition between nations as well as individuals in the industrial and commercial markets, the work of selling commodities is becoming increasingly difficult. The modern businessman has therefore to adopt

more vigorous methods than those employed by his predecessors in order to maintain a footing in his market. The question is whether he should adopt these vigorous methods or allow his trade to fall into other hands? The answer is obvious.

The next plea of those who object to advertising is that the same is made use of by dishonest tradesmen to push articles unworthy of public patronage. The answer is that a good number of most admirable and laudable objects besides advertising, are open to the same objection. Unless the article advertised possesses the merits claimed on its behalf, no amount of advertising campaign is likely to lead to continued patronage, and it is more or less permanent patronage which a far sighted businessman strives to secure. The dishonest tradesman's advertising campaign therefore is generally shortlived. Besides, first class magazines and papers refuse to publish advertisements of doubtful merit. According to no less an authority than Prof. Hess in his excellent text-book on "Productive Advertising" "the advertising of to-morrow will be a decisive factor in moulding of more things than desires and in the creation of things more fundamental to our civic and economic life than in vogue. The chief reason for this is the change in the attitude of the advertiser towards his profession. Equivocal and dishonest methods have been eliminated, and in their stead has arisen the significant motto, inscribed on the shields at the national convention of advertisers, 'truth.' With such a point of view as a foundation, the possibilities for the promotion of the general good are manifold."

In the words of no less an authority than his Most Gracious Majesty King George V, which formed part of a speech which His Majesty was pleased to deliver when Prince of Wales at the Royal Commission for organizing the representation of the British products at a Foreign Exhibition "Experience has shown that, even in the case of firms having an established reputation and world-wide connections, attempts to discontinue advertising, have usually been followed by a diminution in the sales effected, and it is not unreasonable to assume that the neglect by Great Britain of one of the most important forms of national advertisement would be equally detrimental to her interests as a manufacturing country."

When a great industrial country like Great Britain, with an established reputation of the highest class, feels the effect of the advertising campaigns of her rivals, what chance does poor India stand with its infant industries unless its industrialists and merchant princes boldly make use of scientific advertising on a huge scale?

### **The Successful Advertiser.**

∴ The successful advertiser is one who has carefully studied the working of the human mind. He ought to possess the imagination of a practical man of the world. He should be gifted with exceptional powers of observation which enable him to note the current events with a view to take full advantage of them. He should believe in the good qualities of the articles advertised and should be by temperament an active optimist. If put in competition with equally efficient advertisers, he ought to be able to hold his ground in making his advertisements attractive as well as effective, whereas, in case he has to compete



with men who have not given more than a passing thought to this subject, his work is undoubtedly easy though not actually negligible. Thus he should not only study the general technicalities regarding the printing processes, for types pictures and colours, get in touch with the circulation of and influence exercised by various newspapers, magazines, etc., but should also grasp the principles of psychology and make use of that knowledge while preparing the draft copy of his advertisement. This is because the modern advertisements have not only to bring to the notice of the public the article which is the subject matter for publicity, but they should be so framed as to influence the mind of those for whom they are meant, to the extent of creating an overpowering desire to acquire the same. The results have to be attained by the scientific advertiser in the space available *i. e.*, taking the financial provision made by the firm concerned, into due consideration.

### The Copy.

In the preparation of what is called the Copy of the advertisement great ingenuity has thus to be displayed and various elements taken into account and provided for. The principal elements which a good copy should embrace to its best attainable stage are:—(1) Attention value; (2) Suggestive value; (3) Memorising value; (4) Conviction value; (5) Value from the point of view of an appeal to sentiment; (6) Value from the standpoint of answering the demands of and creating habits; (7) Value from the standpoint of an appeal to human instincts. We shall proceed to examine each of these elements separately.

### Attention Value.

It is quite easy to understand that a copy which though it may possess all other merits would be useless if it does not possess the power to attract attention. The first care therefore of a scientific advertiser is to make his copy as attractive from the standpoint of attention value as possible. A large amount of money is simply thrown away by careless advertisers through the neglect of this most elementary factor. In these active times people are too busy to voluntarily read advertisements and the practical advertiser has to see that he so manages to bring out his copy as to involuntarily force attention and persuade his audience to read what he has to state. Moving figures and switchlights are being recently used in case of street advertisements with irresistible effects. Colours play a very important part in adding to the attention value of advertisements, as here, sight has to be appealed to. Red, yellow and blue are the most emphatic of colours which when used with white and black in an artistic manner considerably add to the attractive value of advertisements. These prints should be in large types or blended in an artistic manner with pictures. Yellow signifies light which when blended with the most emphatic of all colours red, expresses fire and has a great attractive value when appropriately used.

According to Prof. Harlow Gale, red carries the greatest attractive value, green is the next best and black the third.

The other element which while it plays a very important part in adding to, or deducting from, the

attractive value of an advertisement, is the quality of the other competing advertisements surrounding it, whether it is a street, magazine or newspaper advertisement. In case the other advertisements are more attractive than our own, ours is the least likely to be noticed. The scientific advertiser has therefore to make a careful study of the competing advertisements appearing in the medium which he selects for his advertisement. A careless draft made out in a hurry with eyes practically closed towards this factor would result in waste of money and time. This is the main reason why full page advertisements in magazines and newspapers carry the greatest attention value. There is no competing advertisement to lead the reader's attention away and the chances are that they will be noticed. The expense involved however makes it impossible for the majority of advertisers to utilise full pages for advertisements.

Next in importance to space is the design or get-up of the advertisement itself. Pictures when appropriately used in connection with advertisements carry with them a peculiar attention value. The words "appropriately used" mean that the picture should have some decided bearing on the matter advertised, and tell its own tale because if there is nothing in the picture itself to indicate the value or usefulness of the article advertised, the person whose attention the picture has succeeded in attracting will most probably pass the same over without reading the advertisement printed under it, thus frustrating the main object sought to be attained by the advertiser. A scientifically designed picture advertisement should not only attract attention but should

also indicate, as far as possible, the article advertised. The suggestion must be so emphatic and attractive that the person noticing it should be involuntarily tempted to read it. It is thus that the repeated reading of the advertisements in newspapers, magazines, placards in street, tramways, railways, etc., creates a favourable impression on the mind of the public, familiarises the brand advertised, pushes its sale and helps to build up good-will of no mean value. To make the matter more clear it would be better to take up two illustrations, one in which a picture is used which has no bearing on the article advertised and the other in which it is appropriate. Supposing a dealer in silk were to use the image of an artistically painted lion in connection with the advertisement of his shop. The picture no doubt will attract a certain amount of attention, but will fail either to create an interest which would induce people who notice the same to read the printed matter appearing along with it, or to give an idea to them as to the nature of the articles dealt in by the shop. To the common run of people who handle daily newspapers or magazines, the advertiser and his wares will remain obscure, with the exception of the very few who have time and leisure to make it a point to read advertisements. If on the other hand a scientific advertiser were to be asked to handle this copy, the picture most probably would be that of a charming young woman dressed in fashionable silk, in the act of stopping out of a motor car, outside the shop of our advertiser, whose windows exhibit fine silk garments together with the sign board indicating the name of its proprietors. A complete description of goods etc., will also appear at the foot of the picture in appropriate types, artistically arranged. Here the nature of

the business advertised is suggested side by side with the class of people who patronise the shop. The sign board unconsciously forces its name to the notice of the reader. Feminine curiosity is appealed to in a forcible manner, with the result that many a fair patron of silk and satin will find recreation in paying a flying visit to this abode of pleasure. Our friend of the silk trade, thanks to an excellent equipment of capable salesmen, coupled with an attractive stock, will experience little difficulty in inflating the figure of his daily sales. ✓

The picture selected must not only be appropriate, but should be such as would create sympathy and attract those for whom it is meant. It should not offend the feeling of the class appealed to, nor create amusement of a type which is likely to lose the respect of the reader. Frequently attempts are made to make pictures amusing. Unless one is possessed of rare gifts in the direction of presenting comic pictures in an appropriate fashion, it is rather a risky experiment to be attempted in the course of an advertising campaign.

Great importance is also attached to the attractive value of the head line used in connection with an advertisement. The general opinion is in favour of a head line made up of three to four words, printed in emphatic black types. The wording itself has to be very carefully thought out with a view to create an effective impression on the mind of the right party *i.e.*, the class appealed to. Catch-phrases, current political maxims let loose by a public leader of eminence, as well as some living incident of the world's current history towards which the public mind happens to be directed at the moment, are frequently made use of with excellent results. ✓

The other method employed for attracting attention is to leave a space at the head and foot of the advertisement. Others leave space all round the copy which helps to bring the same into prominence. Artistic borders are also resorted to with the same object, but here care should be taken to see that the border is not made more attractive than the advertisement itself, as that might have the tendency to distract the reader's attention from the advertisement, which attention may be monopolised by the border. Too much ornamentation and decoration in an advertisement should be avoided for the same reason. In case of borders, careful study should be made of the class of borders, if any, that may be already used by competing advertisements in the same medium. If square borders are in general use, make use of a border with round corners, and *vice versa*, in case of your copy, with a view to create a novelty and thus to draw the reader's attention. A large number of advertisements do not carry ornamentation or pictures either through the force of circumstances, or as of choice, and here the proper selection and arrangement of types is a factor of considerable importance. Very few advertisers in India ever pay any regard to this important factor and are more or less at the mercy of the newspaper compositors, thereby frequently spoiling the effect of an otherwise good copy. The types should be so arranged as not only to attract attention from a general standpoint, but also with a view to give the reader's eye a halt at some important point you wish to emphasize. It is preferable to underline a sentence of importance than to use italics, as underlining attracts greater attention and seems more natural.

Reply coupons are also used in connection with advertisements with a view to attract attention as well as

for their suggestive value. These coupons when made out in the form of triangles are the most attractive from the point of view of attention value, as they cut through the advertisements in an uncommon manner and arrest the eye of the reader.

### **Suggestive Value.**

The wording as well as the picture should possess suggestive value *i. e.*, they should be represented in a manner as would suggest to the reader the advantages of buying your articles and so to say impel him do the same. When a hypnotist wishes to put his subject into hypnotic sleep he repeatedly suggests that he is sleepy, which act gradually captures the subject's will, thereby sending him to sleep and making him act in the manner suggested. The scientific advertiser should also try his best to make his copy carry this valuable element, so that a person who frequently sees the advertisement, is gradually induced to buy and try the merits of the goods advertised. Frequently words such as "Have you tried Lipton's Tea? Try it to-day. It is the best in flavour" etc., are found in advertisements with appropriate accompaniments. These phrases are meant to act as so many emphatic suggestions, which are calculated through a course of repeated reading in placards, magazines, street cars etc., to produce an effect on the mind of the reader similar to that produced by the hypnotist on his subject. People read advertisements in newspapers, magazines, placards etc., half consciously and get the information as to the maker and the advantages offered by certain articles. They then forget the source of this information, and begin to think that these names, so familiar to them, have been recommended by some friends either in business or at their clubs. In

order to bring about this most desirable result, the advertiser should not only bear in mind the value of suggestions made in a correct form, but should also attempt to make the best impression on the mind of the reader as to the merits of the articles offered. Frequently, the suggestion is inserted in the form of a command, such as, "Join Davar's College of Commerce for a practical course of commercial education"; "Be your own carpenter by buying Ellen's Tool Box"; etc., in connection with advertisements, which catchwords are meant to act as suggestions in the form of a direct command. These commands are most effective with the class used to obey commands, but they should not be used in case of customers who are used to commanding others. With the latter, a mild suggestion in an indirect form expressed through the medium of an illustration, picture, or words may be tried with the best result.

### **Memorising Value.**

The copy should be so presented as to create a lasting impression on the minds of its readers. In our early school days, in order to memorise poetry or any other lessons we resorted to the good old device of repeating the lesson. The advertiser can secure a similar result, as far as the memory of its readers is concerned, by repeating his advertisements. An advertisement which appeals to the emotions and sympathy of the reader is most likely to be remembered. Dr. Dill Scott gives as an illustration a picture of an advertisement of the Pelman's School for memory-training in which a young man is shown in the act of giving up his lesson in despair, which he has been trying to master. He is shown with one hand rested on the forehead, with eyes closed and a sort of hazy cloud is drawn



across his forehead to represent the mental fog. This picture according to the learned doctor is not only likely to attract attention of young men similarly situated, but is also likely to impress itself on their memory through the sympathy it is likely to create. ✓

### **Conviction value.**

The next point to be seen is that the composition is presented in a manner which is likely to be believed and taken seriously by its readers. A bombastic or exaggerated style is likely to have a contrary effect and should therefore be avoided. Try to convince your readers as to the assertion carried by your advertisement by logical arguments wherever possible. A copy which is not accompanied by a picture, should make up all that the picture would have suggested through the medium of arguments advanced. Irrelevant talk should be avoided and the language should be brief, convincing, simple and to the point. It is no use saying that your goods are the best in the market, without adding some argument in their favour of a more or less convincing nature. Show why they are likely to be the best, describe the special advantages commanded by you either in their manufacture, or purchase, or some other equally practical reason which is likely to convince the class of readers appealed to. One method most successfully used in this connection is when the advertiser offers to take back the goods if returned as unsatisfactory within a certain time. This undoubtedly creates a good impression on the mind of the prospective buyer, by helping to convince him or her as to the confidence of the dealer in the quality of the goods offered. Experience has shown that very little risk is involved in making this offer in the case

of goods of really good value. In dealing with the question of the various methods of making an appeal Prof. Hess in his book on Productive Advertising states as follows :—

“ Psychology defines the perception of an object as involving two factors ; first, 'stimulus, and second, 'appreciation. So, in advertising we might say that when a large group of individuals has perceived advertising such that the stimulus has tended to associate itself with their past experience, that is, appreciation, recognition has at least been obtained. If this recognition is of such a nature that the past is associated in a manner which tends to prove useful to a large group, then a vogue for that article or proposition is being established. If on the other hand, the stimulus arouses the past of an individual such that it tends to reject the proposition or article, then the possibility of creating a vogue has been diminished.” Thus according to this authority when the appeal is made either to sympathy or to reason through the medium of an advertisement the class to whom the appeal is made ought to be carefully taken into account, and their habits, ideas and tastes carefully studied. The need of the people appealed to should be emphasised and they should be made to agree, as far as possible, with the advertiser that these needs are best answered through the purchase of the brand advertised.

#### **Value from point of view of sentiment.**

Sentiment plays a very important part in all walks of life and a large number of our actions are influenced by the same factor. In the preparation of the copy, therefore, this important factor should not be lost sight of, and

whenever possible, full advantage should be taken of the potential value carried by the same. In no case should the draft be made to include anything which is likely to injure the feelings of the readers, or to create an adverse effect in this connection. This is particularly to be noted in connection with foodstuff advertisements, for a taste for food is more or less a question of sentiment. Articles like biscuits or sweets offered in a tastefully designed packing, are more likely to appeal to and attract the consumer, than those which are clumsily sold in old fashioned paper bags. With the advance of civilization, people have learnt to appreciate neat habits as well as the laws of hygiene and cleanliness. The result is, that food served in a clean and artistic surrounding, appeals to them with greater force. Perhaps a workman used to manual labour and blessed with a keen appetite may not appreciate this factor, but those who by force of circumstances have to follow sedentary occupations are less fortunate in this regard, and care has to be taken to see that nothing which has an unpleasant savour is introduced in connection with food or articles of diet which are meant for their consumption. Through picture-advertisements artistically drawn, full advantage may be taken of this factor, particularly in connection with foodstuffs offered for sale. Let us take the instance of sweets sold in a clumsy manner in some of our old fashioned Indian sweetmeat shops and compare them with those of European makers offered for sale in neat artistic boxes with neat paper and silver packing. The latter appeals to people of cultured tastes who are prepared to pay a much higher price for them. Taking advantage of this factor, a number of enterprising Indian sweetmeat manufacturers have

copied this modern method of presenting their production and have increased their sales.

### **Answering demands and creating habits.**

We have already noted and emphasised that the object of advertising is not only to answer existing demands but also to create them by breaking new ground. With this purpose in view the copy must carry with it what is known as an educative value *i.e.*, one which not only informs people as to the nature of the articles offered for sale and the places whence they can be procured, but also embraces elements which will make the reader, who is not in the habit of using them, do so, and thus create a demand. The task of creating new habits is the most difficult from the standpoint of the scientific advertiser, as habits once formed are difficult to eradicate, and in order to induce people to act in a contrary direction *i.e.*, in the direction which the advertiser wishes them to follow, a regular and sustained advertising campaign becomes necessary. Of course the advertiser should study the habits of the people he deals with and then try to meet them in a most acceptable form. That is no doubt an easy method, and the least expensive. But where the sale of a new invention is to be pushed, it might necessitate a campaign with a view to induce people to form certain habits which it is calculated will lead to a demand for the article concerned. Here an advertising propaganda has to be planned on an educative basis in order to attain the object in view. For this purpose all the resources of logic and argument are made use of and the copy vividly and repeatedly presented to the public through the

various mediums already dealt with. Wherever possible, full advantage should be taken of the current events as are likely to fit in with the arguments presented. As we have already observed, habits of people once formed are very difficult to alter but at the same time it is equally true that if the advertiser succeeds in creating a new habit in his favour he will have secured a more or less permanent custom. For example, people who are in the habit of buying and using Pears's Soap will require a lot of argument before they could be induced to give up using that soap for some other, but there is no doubt that if the object is achieved, the convert is sure to stick to the new brand as tenaciously as he did to the old. A scientific advertiser therefore studies habits as they already exist, takes full advantage of them, at the same time leading his reader unconsciously towards new habits which result in a demand for the articles whose sale he is deputed to boom.

### **Appeal to the human instincts or inclinations.**

According to both Dr. Dill Scott and Prof. Hess mankind are more or less guided by instincts or inclinations which are common to humanity of which the advertiser must carefully take note while preparing his copy. According to both these authorities the following are the principal instincts.

- (1) Self-Preservation Instinct.
- (2) Food Instinct.
- (3) Hunting Instinct.
- (4) Clothing Instinct.
- (5) Hoarding Instinct.

(6) Something-for-Nothing Instinct.

(7) Parental Instinct.

(8) Curiosity Instinct.

(1) *Self-Preservation Instinct* :—It is quite natural with us all to be particularly careful to preserve and protect our person, our health, our lives, our family and our belongings. There is hardly any person who does not instinctively hold out his hand in self-defense if an attempt is made on his life or person. This may be termed the self-preservation instinct ever present in many which may be made full use of by the advertiser. The increasing sale of patent medicines is mainly due to mankind's fear of death and sickness. Various other items such as woollen clothes, overcoats, health resorts, health foods, physical culture courses are advertised successfully by introducing in the copy an appeal to this most active of all instincts.

(2) *Food Instinct* :—We have already dealt with this instinct while discussing the preparation of copies mostly in connection with the question of an appeal to sentiment. Food is a question of sentiment. When advertising food-stuffs it is always best to avoid everything which is likely to offend the reader's ideas on the question of taste or the nature or quality of food.

(3) *Hunting Instinct* :—This is one of the oldest instincts handed down to us from immemorial times when our ancestors had to hunt for their food. Many dealers in sporting rifles, ammunition sporting kits make use of this instinct both in pictures and arguments.

(4) *Clothing Instinct*:—Since the time of Mother Eve, mankind has displayed a particular partiality for dress and clothing. In fact the love for artistic clothing in variegated colours was even stronger in days gone-by than now. All over the civilised world dress and apparel are looked upon as the principal designators of a man's station in life; habits and tastes. Of course the idea as to the right kind of clothes and the proper blending of colour, &c., keep on continually altering with the effluxion of time, and with constant change of thoughts as well as with the closer contact of various nationalities of the world their habits, tastes and manufactures, but the main factor *viz.*, the instinct which attracts men and women to what they consider to be the smartest form of dress, is strong with us as ever and promises to improve day by day. A modern man or woman's ward-robe would have sufficed for half a dozen of the same class in ancient times. The advertiser therefore, who wishes to place on the market any article which has a bearing on the clothing and dress of either sex, gets a telling effect by introducing elements in his copy in which full advantage of this natural aptitude is taken. Of course full regard should be had for what is considered to be the most up-to-date and correct form of dressing among the class to whom his appeal is addressed.

(5) *Hoarding Instinct*:—This is said to be an inborn human instinct though more or less dormant. It may be that in some this instinct is rather too highly developed and may be regarded as a drawback as in the case of a

miser, whereas, in others the same is woefully weak as in the case of the spendthrift and the prodigal. We like to collect articles in the form of money, postage-stamps, match-box labels, old pictures and curios &c., &c. We work and labour to get them. Those among us who are happily overburdened with worldly riches are in a position to gratify our inclinations to a greater degree compared to our less fortunate brethren, but that is only a question of ability. An appeal to this instinct can be easily and advantageously made in the case of advertisements by life assurance companies, who offer various schemes for the effecting of policies which enable persons to collect, lay aside or provide for either an emergency, or the much dreaded old age. Bankers, financing institutions, as well as associations and Governments offering bonds and other securities for investment can also advantageously incorporate this appeal in their advertisements.

(6) *Something-for-nothing Instinct*:—This instinct is being appealed to in advertisements for cinema shows and theatres, lottery bonds and other articles, through the offer of valuable watches, furniture, or round sums of money as prizes to the fortunate possessors of the ticket whose number is drawn.

(7) *Parental Instinct*:—The parental instinct is no doubt familiar to us all, who gratefully remember and appreciate the all sacrificing love of a mother, and the more balanced, though none the less powerful affection of



a good father. The scientific advertiser who has any of the children's requisites to sell, always appeals to the parental instinct through his copy. The author came across an excellent example of this appeal in connection with one of the recent Mellin's Food advertisements where the picture of a middle class English family was shown, assembled in its drawing-room, the father in a remote corner, smoking his cigarette, the mother on the most prominent side of the picture throwing out her arms in the act of receiving a baby which is being made to walk in her direction by a grown-up daughter. The head-line of the advertisement "Baby's first steps" and later the merits of Mellin's Food in connection with nourishing and supporting the strength of babies and children are stated in a brief but impressive language. This picture is bound to attract the attention of parents—particularly mothers with babies to bring up—to whom the appeal seems particularly to have been directed.

(8) *Curiosity Instinct* :—Human beings are curiously inquisitive and as long as they do not go to unreasonable lengths in this regard, this factor need not be regarded in an unfavourable light. A person who keeps his eyes and ears open and thirsts for legitimate knowledge of human affairs, with a view to keep himself up-to-date with regard to modern developments and progress, is making the best use of this instinct. Some advertisers try to make their advertisements attractive by inserting an element of curiosity which forces those of their readers who are so inclined to read and answer the advertisements. Puzzle advertisements frequently appearing in various magazines and newspapers may be taken as illustrations of this attempt.

## **The Mediums.**

The various mediums made use of by modern advertisers may be taken in hand and dealt with in some detail. The principal mediums are; (1) Letters and Circulars; (2) Newspapers and Magazines; (3) Placards and other mediums of street advertising; (4)\* Prospectuses and Catalogues; (5) Theatrical programmes and (6) Shop windows.

### **Letters and Circulars.**

These are perhaps the oldest mediums used in business for the purpose of pushing the sale of goods. The modern business manager makes use of letters both as original advertising mediums, as well as in the form of adjuncts or helps, to an advertising campaign. Manufacturers and wholesalers write letters to their constituents with a view to bring to the notice of the latter new brands and qualities which they offer for sale in which they make full use of the art which the scientific advertiser calls to his aid in the preparation of his copy. The only difference being that here the effect is sought to be created by the force of expression, logic and arguments which are likely to be appreciated by the practical man of business to whom they are addressed. An effective circular letter commands a special advantage. It is a personal letter which if written or typed in the usual way, without any indication as to its advertising character, is bound to be read by the party addressed, particularly where it embraces information in which the reader is interested. There are many modern inventions on the market for duplication of letters, but in all progressive countries they get so familiar within a short time, that it is almost

impossible to send out a duplicated letter without the nature of its production being detected by a practical man of the world, particularly by a businessman of some experience. Blindfold typewriting has made rapid strides everywhere through the help of which a small number of [first class typists can be trusted to work out a large number of original copies of a circular letter at a comparatively small cost. The original letter when it falls into the hands of the addressee is more likely to be treated as a personal communication specially addressed which should be the result always aimed at in this connection. The circular letter has the other advantage of being able to embrace more detailed information as to the goods offered than is likely to be covered by a newspaper or magazine advertisement, and thus a greater scope is offered to the writer for including arguments, facts and figures. Of course much depends on the force of the language used, and the arguments advanced, which ought to be of a practical character, embracing all the important points sought to be made in favour of the writer, without making the letter unduly lengthy or wearisome.

Various methods and devices are being tried in order to get hold of names of dealers and individuals who are likely to be interested in the articles offered. A selection from directories is no doubt the most usual method, but the up-to-date advertising manager obtains names of dealers and individuals from his local agents in each of the provinces that he has marked out for his campaign. These individuals are first approached by these agents, whose work is subsequently given a sort of push or finishing touch by the manufacturer, or wholesaler, through the medium of a series of letters, ~frequently accompanied by suitable

literature—which are given all possible appearance of being original communications *i.e.*, specially written for the party addressed, though a few selected forms once drafted are generally made use of with appropriate alterations and touches necessary to fit in the case sought to be tackled.

The other use of letters *viz.*, as adjuncts or helps to an advertising campaign carried on through newspapers, magazines etc., is no doubt to get custom from the party who has enquired through the post in reply to an advertisement. Here the sales or advertising manager is on surer ground, as the very incidence of the enquirer having taken the trouble to write, marks him out as a party who decidedly promises to be more valuable as a prospective customer compared to the names and addresses selected from directories or recommended by agents. Careful explanation of the details asked for ought to be given and the reply couched in a persuasive style, free from exaggeration, and full of all evidence of sincerity and enthusiasm of the writer as to his belief in the strong points urged. If these elements are carefully attended to, the chances are that a substantial proportion out of the total number of enquiries thus received, can be converted into profitable bargains, which may prove to be the precursors of continued patronage. With regard to those who do not seem to have been influenced by the first letter and the first set of literature, a persistent effort should be made to attract them through the medium of a series of well regulated follow-up letters (with or without literature) sent at fixed intervals. These letters help to keep alive the interest of the enquirer and the chances are that he may eventually be converted in favor of the article offered by the suggestive

effect of convincing arguments thus advanced. There are however limits beyond which a follow-up series should not be allowed to work. Not more than four to five letters should be written in any case. If the last of the series fails to bring in a response, the party should be dropped and the name removed from the list of prospective customers.

### **Newspapers and Magazines.**

These afford the best known mediums for advertisements of all description. Reading of newspapers and magazines like all other habits has grown and developed into huge proportions in all civilised countries of the world and through the cheapening of their cost, as well as through facilities offered by libraries, clubs and similar institutions, the number of readers of these popular mediums of information and public education in the various departments of life has increased far beyond the limits of their circulation and sale. The manufacturer or dealer who makes use of them as publicity mediums in a scientific manner is bound to reap a rich harvest. To-day, the newspaper and magazine proprietors depend largely for their income on the advertising branch of their trade. They are ready and willing to offer facilities by way of printing of pictures and arrangement of types, as the volume of business done by them through this branch largely depends on the advantages accruing to their customers through advertising in their issues. In all first class magazines the picture advertising is reduced to a fine art, and the up-to-date processes of colour blending in connection with these pictures, help to make advertising an attractive

feature from the point of view of all the parties concerned. Magazines are published at fixed intervals either weekly, fortnightly, or monthly and thus, advertisements in them are bound to be noticed more than once by regular subscribers. As they are frequently kept on tables during the period they are current, a large number of people notices them. Newspapers are published daily and thus the life of one particular insertion in them is shorter compared to that in a magazine, but the advantage is that the advertiser gets the opportunity through the form and style of his copy in order to present his case daily in a new light. Besides, the daily papers generally command a large circulation of a more or less local character but in case of magazines its readers may be scattered all over the world. We know of first class English magazines which are largely read in India for example, and which are equally popular in all parts of the British Dominions. Any student of the subject, who has taken the trouble to study these magazines, must have seen what an impressive array of successful advertisements regularly appear in them, which must be attracting customers from all parts of the world. Newspapers are as a rule hurriedly read and got rid of within twenty-four hours, or even a shorter duration, specially in these days of evening editions, and the advertiser has therefore to try his best to make his copy suit the case of the reader who is in hot haste. In case of magazines on the contrary, [the reader approaches the favourite recreative media during leisure hours and thus he is more likely to read an interesting advertisement with greater attention.

These are of course general remarks applying to the two favourite media dealt with here but approaching closer we find, particularly in case of magazines, that besides those of a general character, there are a large number of them devoted to specific branches of human activities such as magazines devoted to religious, financial, agricultural, textile, medical, legal, and educational purposes. Here the advertiser who wishes to interest any particular class, for one reason or other, has his choice through which he can make a direct appeal to that class. The other advantage offered arises from the fact that each magazine commands a status peculiar to itself and an advertisement appearing in it, is bound more or less to be assisted by that status. An advertisement of law books for example may no doubt result in stray orders if inserted in a daily paper or in a magazine devoted to a subject other than law, but there is no doubt that an equally attractive copy appearing in a first class law journal is likely to prove more remunerative. In the case of a daily newspaper also, the advertising manager should carefully study the class of readers among whom it circulates and then decide as to using the same as a publicity medium. The other feature of daily newspaper happens to be that of including sporting, literary and technical subjects on specific days which are sometimes contributed to by recognised authorities which earn for them a popularity among a particular class. In such cases the publicity manager if he wishes to interest the class concerned may by special arrangement, get for his copy a prominent position somewhere near the columns in which his readers are interested.

**Placards and other media of out-door publicity.**

Outdoor publicity has considerably progressed in all civilised countries. It has features peculiar to itself. The switch light, moving figures, placards, cards in railway compartments and street cars being the most prominent media. All these forms of publicity lend themselves easily to colour combinations and artistic picture displays of which a competent advertising manager can take the best advantage. These mediums however, can be used to serve as adjuncts to a regular campaign through newspapers and magazines. They serve to keep alive the interest of the public in the article advertised which is systematically aroused in detail through a determined exposition in the newspapers and magazines. People who pass by a street, either on foot or in a vehicle, can at the most be expected to glance casually at these displays, and therefore, a catch heading and a suggestive picture prominently displayed should be the principal features aimed at. The dominant idea should be to complete the work which newspaper and magazine advertisements have accomplished, by way of educating the public as to the virtues of the article advertised, by making a persistent attempt to drive in the nail through the help of this additional weapon. Care should be taken to see that nothing improper, or revolting to public opinion or morals, is allowed to creep in this form of display. In fact in many countries a special censorship is exercised on this branch of publicity. In England and America Bill Posters' Union have been established who look to this branch of work which makes it impossible for any undesirable display being placarded. These bodies voluntarily reject



all displays which are in their opinion calculated to offend decency, or are guilty of being unduly sensational, or likely to injure religious feelings. A scientific advertiser is not likely to fall into this error, as he knows better than any other individual how detrimental such a display is likely to prove to his own case. His object is to create a favourable impression on the public mind and not to offend it. Great skill and ingenuity has to be displayed in the get-up and design of these placards for which experts are employed to create ideas and to prepare copies. Through these placards, trade marks as well as trade names can be displayed in large sizes which has the effect of impressing them on public memory. Imagine what an all powerful effect an advertisement which is effectively published in newspapers and magazines and then displayed in streets, railways, tramcars etc., by various devices, would have on the public mind! A person notices an advertisement in his favourite daily or monthly and is half converted to come to a decision to buy the article which has excited his interest, but in the rush of a busy life temporarily forgets the same; on his way to or from business his attention is again drawn by placards and signs which remind him of his decision and the chances are that he would take advantage of this reminder to carry out his decision. Thousands pass by a prominent street, an equally large number make use of the popular convenience of transit by tramcars, railways, etc., and thus, a most cosmopolitan crowd of people could be appealed to through these mediums. Of course a placard does not carry with it the dignity and influence of a first class newspaper or magazine, and an old prejudice still exists in the orthodox mind as to this out-door method of publicity, with the result that theatrical companies, cinemas and

foodstuff or patent medicine advertisements are the most usual items advertised through placards. America, however, seems to have got over the old prejudice, as in that country, banks, insurance companies and other similar businesses make use of placards and posters as advertising mediums. The recent War Loan publicity campaign, both through the press and outdoor publicity, has clearly demonstrated the wonderful results that can be secured through the combination of these two methods. The advantage is that this outdoor advertising can be carried on all throughout the country, so that visitors from a country side, or suburb, or *vice versa*, find the familiar names and brands about which they have read and heard so much through the favourite papers and magazines of the country of their domicile and feel like meeting so many old friends. While writing thus in praise of outdoor advertising, the main objection urged against the same *viz.*, that it spoils the effect of rural scenery, is not sought to be ignored. What is urged is that the scientific advertiser should take good care to see that the display is presented in a manner calculated to give the least cause for complaint in this direction. Attempts are also made to present the placard displayed in the country-side match with the scenery and surrounding conditions as far as possible. Thus we find the advertisement of the famous beef extract Oxo represented in the form of a bull and frequently the poster itself is cut out to represent that animal in outline, size and shape. Similar devices such as horses, giant bottles, barrels, etc., are represented by the poster to be found in suburbs, particularly on the edge of a road which overlooks the open pasture ground and fields, and made to, as far as possible, fit in with the nature of the article advertised.

The other feature of out-door advertising, is the use of electric switch lights. This form of publicity is no doubt costly, and should be tried only in localities where a large number of people are likely to congregate at night,—*e.g.*, near pleasure-resorts, restaurants etc., and as the people so congregating are generally in a light mood having come out to enjoy themselves, items such as tobacco, cigars, theatres, restaurants, sweetmeats, etc., are the appropriate articles for this form of publicity.

With regard to cards displayed in railway compartments and tramcars, the special point to be noted is that people travelling by these mediums are compelled to sit in a certain position for a comparatively long period. Even in case of local trains and cars a person usually occupies it, while travelling to and from business, for at least a quarter of an hour and frequently even longer. Whereas in case of railway trains meant for long journeys, the passengers have to pass a number of days in the same compartment. A scientific advertiser has an excellent opportunity presented to him here, which he can utilise with a view to force the merits of the article he offers for sale to the notice of thousands of these cosmopolitan travellers. If the card is fixed at a correct angle in a prominent place, with all due regard to the effect of sun light during day-time and artificial illumination at night, and the copy as well as the design made strong enough to attract attention and create interest, the contents of the card are bound to be noticed and repeatedly read. Those who notice these advertisements are most likely to remember the name of the brands advertised, as well as their contents, and in course of time they forget where they noticed the same, with the result that an impression gradually grows on them to the effect that the same was

recommended to them by some friends, a most valuable psychological condition from the point of view of the advertiser. The same remarks no doubt apply to tramcar and similar mediums of daily travel, though the advantage peculiar to tramcars and local trains is that the same crowd travels backward and forward daily, except a few casual visitors from outside, and thus through the use of a series of cards thoughtfully displayed in succession, the best result may be obtained. This is facilitated through the use of regular glass frames which can be fixed to the spaces hired.

### **Prospectuses and Catalogues.**

Prospectuses and Catalogues issued by traders, manufacturers, and others, are generally sent on in reply to enquiries either in reply to advertisements, or through recommendations of existing customers. In order to be able to present your case in a forcible and attractive manner, to the most likely customer, great care should be devoted to their get-up and contents.

The first point to be determined here is the design and get-up of the cover. The cover helps to form the first impression, and a scientific manager, knowing fully well the value of this impression, does not spare expense or trouble in this department. Full advantage of colour effects should be taken and presumably an expert should be consulted. The design should not be too complicated from the point of view of an average man, as otherwise, the effect will be lost on the majority who are not gifted with artistic minds. A simple design in emphatic colours should form the object in view. The proper quality of paper *i. e.*, one which is

likely to stand wear and tear, should be used for covers, and wherever possible, these booklets should be provided with hangers to serve as suggestions to the effect that they may be preserved for future reference. These catalogues and booklets should be made out in convenient sizes for facility both of postage and filing. The octavo in case of smaller booklets, and quarto in case of bulky ones, are considered the proper sizes. The special feature of these booklets lies in their ability to lend themselves so readily, particularly where art paper is used, to picture display both within its pages as well as on the cover, which should be taken full advantage of, and the language describing and discussing the merits of the wares offered, should be forceful without being difficult or high flown. It should never be lost sight of that the object of a booklet is generally to explain the points raised to the reader whose education may not necessarily be of a high standard. Besides, those who read this type of literature do not spend much time over it and are not likely to go to the length of getting their contents paraphrased. For these reasons, technical words and expressions must, as far as possible, be avoided. An adequately designed and properly composed booklet on rich art paper stands the best chance of being read with sympathy, and what is more, is least likely to be destroyed or consigned to the traditional basket, whereas, a clumsy production, printed on cheap paper and small types, is bound to be treated with scant courtesy. It need hardly be stated that if this poor design, get-up and paper is likely to achieve the object sought, it should at least be in the form of a booklet. The full address of the issuing firm, as well as its telephone number, together with its telegraphic code word should also be printed in a prominent position. The arrangement of the subject-

matter discussed and illustrated within the booklet should be such as would succeed in maintaining the sustained interest of the reader throughout all its pages. It is thus that the complete exposition of the case presented may be prominently brought to the full notice of its readers. The mode of address should be, as far as possible, direct and of a personal nature, the language earnest, simple and imperative. Testimonials of an appropriate character from prominent persons may be included to advantage. The selection and arrangement of these testimonials should be made with care and ingenuity and particularly those who speak of favourable experiences should be given all prominence. Humanity likes to be guided by other people's experiences, and therefore, if these testimonials are properly used, they go a long way in helping the writer to convince his customer and thus they form a fitting complement to the literature embraced by a booklet. \*

### **Theatrical Programmes.**

Theatrical programmes are also the common mediums for advertising. These are used by the audience not only during the period occupied by the performance concerned but many carry them home. A smaller number collect these copies like old postal stamps. During the intervals, and while waiting for the curtain to rise, people glance through these advertisements for whiling away the time and this opportunity should be made use of by a competent advertiser to the best advantage. People out to enjoy themselves are in the happiest of moods, which fact should form an index as to the nature of the articles that are best suited to this form of publicity. Advertisements regarding restaurants, cigars and tobacco, sweets and chocolates, women's dress-materials and similar articles are

a few of the most appropriate. Even in the wording and design used in this class of advertisements an appeal in a happy and pleasant, or amusing tone, should form the text.

### **Shop Windows.**

One of the most attractive and useful method of advertising is the use of shop windows. In old-fashioned shops, windows are practically neglected, and where they exist at all, articles are thoughtlessly huddled together in a clumsy heap full of dust, with the result that instead of attracting business they create a feeling of disgust in the mind of the casual passer-by. To-day in case of all progressive retail shops, all wall space is reduced to a minimum and large glass windows are made to occupy the available space overlooking public streets. We have noted the importance of the situation of a shop in a prominent locality in the first part of this chapter. Full advantage of this factor can be secured through a scientific use of the windows which are under public observation. Window-dressing has now been reduced to a fine art and experts are engaged by important firms to look after this branch of publicity. The object aimed at is twofold *viz.*, to attract attention to the class of articles offered for sale, at the same time to infuse in them the magnetic power of drawing customers, particularly those who are not already on the daily list. In other words an appeal is particularly made to those who do not fall under the heading of regular customers, at the same time the interest of old patrons is sought to be maintained. If successful, casual passers-by notice on the window articles which interest them and finding the prices marked favourable, step in with a view to buy the same. The window has thus achieved the first object, the rest lies

with the salesman or saleswoman in the shop. If the latter play their part well, the chances are not only that the coveted article is purchased, but perhaps a great many more than what was originally intended would form part of the bargain. If the articles bought prove satisfactory, the shop-keeper will have the additional satisfaction of seeing so many additional customers on his daily list. It is thus that small businesses gradually grow into large and flourishing establishments. Let us consider for a moment the possibilities lying dormant behind this outwardly simple form of publicity. If for example, a shop which starts with three hundred customers were to succeed in interesting about ten casual passers-by every day, of whom even if five were eventually added daily to the regular list, in the course of about three hundred working days in the year, the regular list will swell to a total of eighteen hundred customers inclusive of the original three hundred. This is an approximate estimate but one which is calculated to give the reader a rough idea as to the potential value of a scientific window display.

The next question to be considered is the mode of display. Windows are generally trimmed, and this process should be regulated on artistic lines, but at the same time care should be taken to see that the trimming is not too attractive for the articles displayed lest the same may distract attention from them. Trimming is meant to serve as a sort of frame-work to the window which presents the display and a too attractive frame on a comparatively plain picture spoils the effect meant to be carried by the latter. Besides, what is aimed at in case of a window is to hold the attention of the observer within its compass. The next



point requiring attention is the display of the articles offered for sale. Many shops go in for what is known as "a single article display" with a view to concentrate the full attention of the passer-by to it. This form of display is no doubt very effective owing to the fact that there is no other competing article in the window. Of course the windows should preferably be cleared daily in order to be able to display as large a variety as possible. Where a large number of articles are exhibited in a window, great care should be taken to see that the display draws attention to as large a number as possible. To bring about this result it is best to group together appropriate articles. Large furniture shops of Europe while they display, for example, a complete drawing-room in one window, an equally attractive dining-room in the other, a furnished bed-room in the third, and so on, do so with this object in view. Here the combination appears so natural that the effect of the display as a whole, influences the mind of the prospective customer. Many of us who have occasionally succumbed to the charms of a shop-window, have often wondered why a particular article which appealed to us so strongly in the window looks so plain and common within the familiar atmosphere of the drawing-room. The attractive effect of a complete show makes all the difference. Besides, appropriate articles should be displayed here during each season. It is unbusiness-like, not to say contrary to common sense, if winter garments are displayed in summer and *vice versa*. The display of a large number of articles in demand among military men during the war by some of our shops, was based on the same principle. The idea is to keep, as far

as possible, in close touch with the time and circumstances, with a view to be able to secure the greatest advantage therefrom.

Articles in a shop window are frequently marked with prices. The marking should be clear and free from ambiguity and a form which frequently misleads the public should be studiously avoided. It is not uncommon for example to find in case of an article marked Re. 1-15½ annas, the anna portion to have been purposely written in comparatively small letters. If the object here is to influence the mind of the purchaser with the idea that the price is one rupee, whereas he is actually made to pay very nearly two, it is a tactics of doubtful utility. How far this succeeds in achieving its object is a question on which it is hardly necessary to waste time, but it seems certain that even though this undesirable form were to attract some business, the after effect left on the mind of the customer is any but favourable. A businessman who aims at securing a more or less permanent patronage from every customer he happens to deal with—and it is the permanent patronage which adds to the stability of a business—should avoid this objectionable practice, for the same is bound to create a most unfavourable impression.

We have already seen that windows should be cleared and articles shifted daily. This frequent shifting of articles helps to keep alive the interest of a large number of people who daily pass by a shop on their way to and from business, at the same time they give the public an idea as to the different types and classes of articles sold at the shop. By a well regulated series of displays the complete contents of a shop are thus gradually displayed with excellent results. If electric

lights are used during nights, they should be suitably hidden from view, as otherwise, they might distract attention. It is doubtful how far attractions, such as moving figures, music, etc., go to help this class of display. A large crowd outside a window is bound to be objected to by the authorities and is also likely to keep away the right type of prospective customers. Again, if the attraction does not represent the article offered for sale, it may perhaps help to divert public attention from the articles advertised.

Besides retail shops, a large number of manufacturers wishing to bring out their brands and wares, make use of shop-windows for the purpose of exhibiting their products. The modern manufacturer, as we have already noticed, does not rest content with the efforts of his wholesale and retail agents, but adds his own quota to the selling and publicity campaign. He no doubt advertises through all the other mediums dealt with by us, but over and above these, he frequently plans exhibitions in shops situated in prominent localities, where articles of his manufacture and their uses and advantages are advertised. The windows of these shops, as well as the interior, is made use of for exhibiting the products concerned, where people are cordially invited, all enquiries are carefully attended to, and if necessary, the proper retail or wholesale dealers referred to.

### **Advertising Agencies.**

Advertising Agencies have come into great prominence, both in England and America, and practically speaking the largest proportions of advertisements of all classes in these countries are now-a-days controlled and put

through by these agencies. These agencies undertake to look after every class of advertisement and also arrange the direction of advertising campaigns. They have mostly passed through the early stage when all they did was to secure suitable spaces in newspapers and magazines or to select and arrange for convenient sites for outdoor publicity. The most prominent of these firms now undertake the work of the scientific advertiser and render considerable assistance in this direction, both to clients who are unable to maintain a special advertising department with an expert as their advertising manager, as well as to those who can afford to pay for this luxury.

To the former class of clients they act as special advertising departments, advise them as to the design and get-up of advertisements, prepare copies both for outdoor as well as newspaper and magazine campaigns, draw up circulars, booklets and other literature, design wrappers and packages for their wares, suggest appropriate mediums for publicity and finally arrange for insertions at favourable contracts. To the latter they act as consultants besides rendering the usual service in placing through the advertisements or other literature. These agencies undertake the distribution of literature, fixing of placards and posters in proper positions and looking after their safety, addressing the literature to the appropriate parties and so on. They maintain large departments of specialists and experts to look after the various branches of their profession. They possess experts who by long practice and experience, as well as through the force of inherent ability, are able to create new ideas, ideas which mean an amount of business to their clients. They maintain a large staff of artists to design copies and pictures

according to the ideas suggested by these experts. The newspaper and magazine spaces, sites and positions on prominent public streets, as well as railway stations and sidings, and suitable spaces in tramways and railway waggons, are purchased by them by contract and are in turn offered to their clients at rates more favourable than those at which the latter could have secured the same direct. They thus render a service both to their clients as well as to proprietors of newspapers, companies, corporations and other public bodies concerned. The clients secure spaces at reasonable rates whereas the proprietors of the publicity media are saved the trouble and expense of having to deal with a large clientele of an assorted type, not to speak of the loss involved in the collection and checking of small accounts. It is thus that a small trader or manufacturer is able to secure the services of experts whose employment as full-time managers would be well nigh impossible even for much larger concerns. Some advertisement writers and managers draw as much as £1000 a year, and even more, in England, from firms who employ them, whereas there are others who practise on their own account and who would not care to accept service on this basis of remuneration. Whereas in America the wages earned by first class men in this branch of work are much higher. One has to take these features in calculation in order to appreciate the great services rendered by these firms of experts at their proper value. Schools and Colleges, as well as Universities are now including advertising as a special branch of study in their curricula thus recognising the claims of this branch of human activity to a place worthy of the high technical skill and scientific effort involved in its study.

The other advantage offered to the client by these agencies is, that no charge is made by them for their services in connection with the placing of advertisements. They are generally satisfied with the commission allowed to them (usually about 10 to 15 per cent.) by the proprietors of the media concerned. In some cases even advice and guidance are offered free of charge.

To take up an illustration, supposing a client consults an agency as to a particular article, or set of articles, which he wishes to push in certain markets. The agency recommends the design and get-up suitable to the taste of the buyer in that province, supplies detailed information as to the magazines and newspapers in circulation in that area and the class of readers that can be influenced through these mediums, draws up a sort of a chart showing the number of insertions and the cost on the basis of a particular copy which it has proposed after careful consideration of the instructions of its client. If the client finds the estimate too costly the plan may be narrowed down from the stand-point of economy or expanded if a larger outlay is available. The same attention is given to the various features of outdoor publicity, if that branch of advertising is suitable to that class of trade, and estimates, figures, as well as designs, are submitted for approval.

## CHAPTER XI.

## The Stock Exchanges. Their History, Organisation and Practice.

The Stock Exchanges or the Share Bazaars are institutions of comparatively modern origin all the world over. Neither Athens nor Rome boasted of similar institutions where, as at present, securities in form of Government loans, Shares and Stocks of Joint Stock Companies etc., find a ready market. The foundation of these institutions was laid from the time the currency of the civilised countries became stable and well regulated, banking enterprises came to rest on the solid foundation of public confidence, and the borrowing of states was crystallised and efficiently organised. The advent of the Joint Stock enterprise on the scene as we know it at the present date, accelerated the progress of these institutions as central markets for raising money for industrial and other enterprises where the public savings found ready mediums for investment. In old days when these exchanges were unknown, a person who managed to lay by a small capital found investment a difficult problem, because unless his saving represented a substantial amount, a purchase of immovable property or an investment by way of mortgage on a similar security was not possible. Even deposits with banking institutions in old days had to be made in figures far beyond the limits of an average citizen's savings. To-day, with the spread of what is known as the banking habit, with the facility for easy investment, a person with a modest income is encouraged to practise thrift in the hope of making his saving earn an income, and when his bank balance assumes a decent proportion, he finds ample opportunity

for investment through the help of his broker on the Exchange, or through his banker, in some marketable security wherefrom he can not only hope to receive a satisfactory income by way of interest or dividend, but also hope to increase his capital through a rise in the market value of his investments. At the same time he is secure in the idea that in case circumstances should necessitate the conversion of his capital into cash, a ready market on the exchange leaves him an ample choice in that direction. The rapid progress of industrialism in modern times is due largely to the facilities afforded by these excellent institutions ; for in the absence of such ready markets for investments and finance, Joint Stock Enterprise could never have developed to the gigantic proportions it has assumed to-day. The rapid rise in the national income of various countries may also be traced largely to this source, even after making all due allowance for modern inventions like steam-power, electricity, telegraph, labour saving machinery etc. No doubt the Stock Exchanges, like all other useful institutions, are not free from drawbacks. In other words, they do not claim to be free from elements which bring about disaster and suffering to the human race. Speculation has repeatedly spread to a dangerous extent on these exchanges, bringing in its train inevitable ruin and hardship involving both the innocent and guilty ; but these incidents are due more to the abuse of the facilities afforded by these excellent institutions, than to the nature of the transactions they normally put through. Some Exchanges, like the London Stock Exchange, form the medium for raising capital both for home and foreign requirements, and the business placed there assumes an



international character, whereas others, like the Wall Street of America deal largely in local securities. In both cases the services rendered to civilisation are of no mean order. We have already seen to what extent the Exchanges have helped the world's material progress. Looked at from the moral stand point as well, the modern Exchanges are capable of holding their ground. In their early career they found humanity—or at least that branch of it which had taken to commercial pursuits—on a low level, devoid of those traits of character which go to make the straightforward businessman of the present day. It is but natural that this element should have hindered the progress of these institutions in countries like England and America where they originated, for we are told by the early chroniclers of both these countries that dishonesty and swindle ruled supreme on these Exchanges in the early days of their career. In England in the reign of William III, an Act (8 and 9 William III C. 32) was passed entitled "An Act to restrain the numbers and ill-practices of Brokers and Jobbers" by which Act it was sought to limit the number of Stock Brokers to one hundred, each of whom had to register his name and address on the Royal Exchange and had to carry about a silver medal of the King's arm with his name inscribed on the same to prove his *bona fides*. They however soon emerged from this stage and to-day the average Stock Exchange-man all over the civilised world is looked upon with due respect. The qualities of self-restraint, which the nature of the business calls forth, the sporting spirit which the peculiarity of the transaction helps to develop, and the mutual trust and confidence which are so essential to the very existence of the

profession, have all combined to exercise an educative influence of a very high order to which the building up of character among Stock-Exchange men is largely due. The march of modern civilisation has helped to spread these institutions all over the world, and it is our purpose in the course of this chapter to deal with the organisation and practice of some of the most important of these institutions, particularly those in which an Indian student of Commerce is likely to be most interested.

## **The London Stock Exchange.**

### **Early History.**

The birth of what afterwards developed into the London Stock Exchange dates back to the period of the speculative mania between 1726 and 1800, when at the Change Alley and also in the coffee houses in Cornhill, Lombard Street and the Sweetings Alley, the jobbers and the speculators in Government securities, as well as in Stocks and Shares, met together and did business. The most popular coffee houses where these jobbers and brokers congregated, were the Jonathan's and Garraway's coffee houses, the former being the more favoured of the two. Gradually Jonathan's coffee-house came to be known as the Stock Exchange. In about 1748 Jonathan's coffee-house was burnt down and the New Jonathan's was started in its place. It is interesting to note here that the foundation of England's Marine Insurance Market, now so famous all over the world under the popular designation of the "Lloyds," was also laid at a coffee-house, known as the Lloyd's coffee-house, then situated in the vicinity of the Bank of England, where originally the underwriters used to meet and transact Marine Insurance business with the outside

public. Eventually, the underwriters formed themselves into an association called the Corporation of Lloyds. The Stock Exchange at Jonathan's coffee-house also developed on similar lines. In course of time it was found necessary to erect a special building, the foundation of which was laid in 1801 and it started work in 1802. The capital required was raised by the issue of shares.

At first the London Stock Exchange principally dealt in home securities but gradually, and specially after the close of the Napoleonic wars, dealings in Foreign securities began to be introduced on the London Stock Exchange. The advent of Joint Stock Companies on the scene no doubt accelerated the pace of progress and the London Exchange has had varied experiences of reckless speculation during the nineteenth century. The time between 1824-26 marked a period of Joint Stock Company speculation, which in many details resembles our experience of the Backbay mania during the years 1864-65 with which we shall deal later. The next period of speculation on the London Exchange was that of Railway Company floatation, when numerous projects for starting railway lines all over England, and even in foreign countries, were offered for public investment, with the result that a great many of these projects failed during 1846. The year 1900 was eventful in the South African Mine shares speculation with the usual sequence; whereas the Rubber Boom of 1910 helped a large number of speculators to amass fortunes. These were the periods of exceptional activities, and as is usual in case of all excesses, they brought about their unavoidable reaction. The rest of the history of this excellent institution records a steady progress in the country's savings and income, and an exceptional development of trade and

industries, both home, colonial as well as foreign. The excellent services rendered by this institution during the last war, when enormous amounts were continuously raised for war purposes, is still too fresh in the minds of the reader to require a detailed mention. The peculiarity of the present day Stock Exchange of London is that it, unlike many others, deals largely in foreign, besides British securities. It is so to say the world's market for investment and finance. Not only foreign companies, but also almost every foreign government, find a ready market in London for their securities. This is no doubt largely due to the exceptional prosperity of England. Every year the English capitalist has had on hand a large surplus income in the form of capital for which he is constantly looking out for channels of investment. No doubt the last war will have some effect on the state of affairs, though of course how far the British capitalist will be able to spare his savings for foreign investments in the future is a mooted problem which experience alone will help us to solve. One point is certain, viz., that of all investors the English capitalist has, through bitter experience of the past, learnt best how, when, and where to invest. He is a seasoned warrior, who is not likely to be misled in the near future, which promises to open up many new channels for investment with the development of new countries which the war has helped to open up. L

### Membership:—

There are about 5000 members in the Stock Exchange of London. A candidate for admission must be recommended by three members of no less than four years' standing, each of whom must engage to pay upto five hundred pounds to the creditors of the candidate.

they propose, in case he fails or proves a defaulter within four years of membership. In case of a candidate who has served as a clerk in the House or the Settling Room for four years, two recommenders only are required who have to stand security for him for three hundred pounds each, instead of five hundred pounds as in the case of an outsider. Here also the further restriction imposed is that no two members of the same firm can be recommenders and no member shall stand surety for more than two new members at the same time. The recommenders are required to answer the following questions as per the rules of the Exchange :—

1. Has the applicant ever been a bankrupt, or has he ever compounded with his creditors? and if so, within what time and what amount of dividend has been paid by him?

2. Would you take his cheque for three thousand pounds in the ordinary way of business?

3. Do you consider he may be safely dealt with in securities for the account?

Strict enquiries are made as to the standing and status of the applicant and the recommenders are expected to possess personal knowledge as to these. Any candidate who has been a bankrupt or who has compounded with his creditors more than once is inadmissible. They are also balloted. The election must be carried by at least three-fourths of the members of the committee present and voting in favour of the candidate, at which meeting at least twelve members must be present. The candidates on election to membership are also required to buy at least one share in case of those recommended by two, and two shares in case of those recommended by three members. This share qualification

must be obtained within six months of election, failing which the election is cancelled. These qualification shares should not be transferred during membership, as such a course will also result in the membership itself ceasing. The members are supposed to be elected for one year and are re-elected in the subsequent years on the 25th of March every year, when they have to declare whether they propose to act as brokers, jobbers, or clerks. During the year a member can alter his status from broker to jobber and *vice versa* by giving one month's notice to the committee.

### **Jobbers and Brokers.**

The special feature which characterises the membership of the London Stock Exchange, from the Exchanges all over the world, is that the members of the London Exchange are divided into two water-tight compartments under the designations of brokers and jobbers respectively. This division, as we have already noticed, is voluntary. Members with capital at their command generally prefer to act as jobbers or "dealers," whereas those less fortunate in this regard but who command large influence among the investing members of the outside public, prefer to act as brokers. We have referred to this as a special feature of the London Stock Exchange because on the Exchanges and Bourses all over the world the members act simultaneously as dealers and brokers. The broker's function is to secure orders for purchase or sale of securities and place the same on the Exchange with the jobbers for which a brokerage or commission is charged. The jobber on the other hand is the member who prefers to deal in stock and shares. He is generally on the Exchange to buy or sell those securities in which he specialises at prices quoted by him. The principle on which he is supposed to be working

is that of buying cheap and selling dear, as we shall see later on, the difference being known as the "jobber's turn," or the "turn of the market". It is a mooted question whether this system does not throw an unnecessary burden on the investors i.e., the outside public, who have to pay the broker's commission as well as bear the burden of the "jobber's turn." Advantages claimed for it are that on a market with so many complicated dealings, and that too in international securities, much time and effort would be wasted if the system which prevailed on the other Exchanges *viz.*, allowing every member to deal as jobber as well as to act as broker, were to be introduced. It is asserted that the conditions prevailing in London are peculiar to itself and that the jobber there is the most essential part of the Stock Exchange machinery in the interest of all. There is one additional advantage which suggests itself, *viz.*, that under a system which prevents brokers on the Exchange from acting as buyers or sellers against their own principals (clients), the latter can look at them with confidence for advice and guidance on the question of investment, as in such cases the advice is most likely to be disinterested. Of course, London being peculiarly placed as the banking and financial centre of the world, as well as the metropolis of an Empire whose capitalists are generally residing in that city or are represented there, and who are constantly in search of investment of the large surplus income which is constantly pouring in from abroad, its Stock Exchange naturally commands the largest business and that too of a nature which affords ample scope for specialization and division of the type we are discussing.

#### Committee for general purposes.

The internal management of the London Stock Exchange is carried on by the committee for general purposes, which

consists of thirty members, who are elected by ballot by the members on the 25th of March every year. No person who has not been a member for at least five years immediately preceding his candidature can be elected. The occasional vacancies are also filled in similarly by ballot, the person so elected to hold office until the 25th of March immediately following. The functions of the committee as per rules are:—"The committee shall regulate the transaction of business on the Stock Exchange and may make rules and regulations not inconsistent with the provisions of these presents respecting the mode of conducting the ballot for the election of the committee and respecting the admission, expulsion or suspension of members and their clerks, and the mode and conditions in and subject to which the business on the Stock Exchange shall be transacted, and the conduct of the person transacting the same and generally for the good order and government of the members of the Stock Exchange, and may from time to time amend, alter or repeal such rules and regulations, or any of them, and may make any new, amended or additional rules and regulations for the purpose aforesaid." The committee elects its own chairman, deputy chairman and secretary. It will thus be seen that the committee exercises a disciplinary control over the members of the Stock Exchange and is given strong and salutary powers of control, suspension and expulsion of members. No member is allowed to enforce by law against another member any claim arising out of Stock Exchange transactions without the consent of the committee. The committee also decides all questions referred to it by its members and deals with complaints against members. It also decides which securities are of sufficient magnitude and importance to deserve a place on the official list, watches carefully the



companies and institutions whose securities are so quoted with a view to see that they comply with those requirements of the Exchange which alone would entitle them to retain their place on this list. The committee act on the principle of the "inviolability of bargains" and shall not entertain any application for annulling any deal on the Stock Exchange, except on the ground of fraud or wilful misrepresentation or upon "evidence of such material mistake in the bargain as in their judgment renders the case one which is fitting for their adjudication." The power of expulsion of the members can be exercised by the committee when any member in its opinion has, (1) violated any of the rules or regulations, or (2) failed to comply with any of the committee's decisions, or (3) proved guilty of dishonourable or disgraceful conduct.

The committee has also the power to suspend a member "who in his conduct or business may act in a manner detrimental to the interests of the Stock Exchange, or unbecoming the character of a member, or who may obstruct the business of the House." The committee reserves to itself the power to publicly notify this expulsion or suspension.

The managers on the other hand are elected by the shareholders. They are nine in number. They look after the upkeep of the Stock Exchange buildings, elect all officers except the secretary, who is elected by the committee for general purposes, and fix fees.

### **Clerks, Authorized and Unauthorized.**

The clerks to the members of the Stock Exchange may be authorized or unauthorized. Authorized clerks are the clerks who are empowered to buy and sell securities on the Exchange on behalf of and in the name

Unauthorized clerks on the other hand are those who accompany their masters on the Exchange in order to check the bargains for him and to give him general assistance. An authorized clerk must be twenty-one years old whereas an unauthorized clerk must be at least seventeen. The authorized clerk of a jobber is not allowed to transact business in any market other than that in which his employer deals. These clerks are not allowed to make any bargains in their own name. A member may be employed by some other member as his authorized or unauthorized clerk, but during such term of employment the member so employed can not enter into any bargain on his own account. As soon as a member parts with a clerk he must give notice to the Secretary of the Exchange who notifies the same to the Exchange in the usual manner.

### **The Markets.**

For the sake of convenience the London Stock Exchange, is divided into different markets, *viz.*, the American market, the Consols market, the Railway market, the Foreign market, etc., where separate groups of jobbers who specialize in the dealing of the particular class of securities are found standing during business hours.

### **The Course of Business.**

Any one wishing to deal on the London Stock Exchange must open an account with a broker member of the Exchange for which purpose the party should get himself properly introduced. Once an account is opened, the broker will take orders from his client and place them with the jobbers on the best possible terms. The outside public is not admitted to the Exchange and no member of the Exchange will have dealing with a non-member except

through the intervention of a broker member. Every day orders are received by brokers to buy and sell securities of various types and classes from their clients, public opinion favouring one type, or the other, according to circumstances. The bargains may be either for "money" or for "account." The transaction for money is paid for and settled on the same day. On the other hand, a transaction for account means that the securities agreed to be bought or sold are not to be delivered or paid for until the next settlement day i.e., one immediately following the date of purchase or sale. If for example, a broker has orders to buy certain bonds or shares on account, he generally approaches those jobbers on the Exchange who make a speciality of dealing in same. He asks for a quotation in the security concerned without disclosing whether he is a buyer or a seller. On this the jobber gives him two prices say 101-102, which means that he is ready to buy at 101 and sell at 102. The difference of one between these two prices being called the jobbers' turn, or the turn of the market on which the jobber is supposed to look for his profit. In order to prevent the broker from binding the jobber to buy or sell an impossible quantity at the price quoted, it is laid down that "an offer to buy or sell stock, bonds, or shares when no amount is named, is binding to the amount of:—

£1,000 Stock or Bonds or their equivalent in foreign currency.

£100 Shares of the market value of less than £1.

50 Shares of the market value of £1 to £15.

10 Shares of the market value over £15.

100 American Dollar Shares."

Now supposing that the broker's order was to buy and he was satisfied with the quotation, he will say, I buy five

shares at 101. The transaction would then be noted by both the jobber and the broker in their respective note-books. Here it may be remarked that by a process called "marking" the members are kept in touch with the prices at which business is done in important securities by means of the marking-board which is kept in the Exchange in a prominent place. Members are requested to write out on forms supplied the prices at which they do business in various securities and drop the same in boxes kept for the purpose. These boxes are cleared from time to time and the official marking is done through the prices thus indicated. The official list of prices for the next morning is also made out from this source. It may be added here that a jobber when approached by a broker is not bound to make a price at all, though present on the market, but once he gives a quotation, he is bound to deal at that price upto the maximum laid down by the rules or for the quantity named at the time of asking for the quotation.

We have seen how a bargain is closed. We will suppose that it was for account. The next day it will be "checked." This is done by checking-clerks engaged by brokers and jobbers who meet for this purpose in a special room provided for them on the day following the date of purchase or sale. The broker immediately makes out a contract note for his client stating particulars as to the purchase or sale, together with the prices and the name of the jobber, which he (the broker) signs.

The Stock Exchange Committee fixes the settlement days. On the London Stock Exchange the ordinary settlements are fortnightly, whereas those for consols are monthly. Each settlement is divided into three days *viz.*, (1) The contango or the carrying over day, (2) name or the ticket day (3) settling, or pay day.

On the first day the speculator who does not wish to close his account either by paying his difference of loss or profit, or by paying for and taking delivery of the securities, gives a notice to that effect to his broker and requests him to carry over the transaction. This we shall fully deal with later.

On the second day the brokers have to declare the names of those to whom the stock and shares have to be transferred on tickets so that transfers may be prepared.

On the third day the securities are delivered and paid for.

### **The Technicalities of the Dealings.**

We have thus noted the various steps necessary in putting through a deal. It is now proposed to enter into a discussion of the various technical terms connected with these deals together with details as to the various modes of dealing on the Exchange.

The regular investors generally enter into transactions for money, unless they find the account prices more advantageous, which is rather rare. By far the largest number of transactions are made up of account dealings which are generally of a speculative nature. These speculators try to take advantage of the fluctuation in the prices caused by the law of supply and demand, which operates on securities just the same as on the commodities. At one time the public seems to favour one type of stock or share at another time it seems to be anxious to get rid of it. This state of the public mind is due to so many complex set of causes that it is impossible to lay down any dictum or rule. The nature of the securities themselves plays an important role in this regard. Some are affected by

political causes at home or abroad like Government Loans and Bonds, a bad harvest, may have a depressing effect on such shares as Railway Shares, whereas an industrial unrest may affect the third class of Shares like the Mill Shares and so on. The seasoned speculator watches these carefully and tries to make most of his opportunities. We have thus two classes of operators on the market viz., the "Bull" and the "Bear". Let us deal with each separately.

#### **The Bull.—**

The Bull (known as *tejiwalla* on our share bazar) is an operator on the Stock Exchange who buys securities on account, under the expectation that by the next Settling-day the prices will go up and by taking delivery at the cheaper rate, at which he has agreed to buy, and delivering the same at the higher rate possibly on the settlement day, will make a profit. Supposing that a speculator thinks that for some reasons best known to himself the price of Hindustan Railway Shares quoted to-day at Rs. 100 per share will go higher by the next settlement day he orders his broker to buy ten shares on account. Now if on the Settling-day the shares do rise in price, say to Rs. 110, he will make a profit of Rs. 10 per share minus brokerage by taking delivery at Rs. 100 and selling them at Rs. 110. In fact he will find the jobber from whom he has bought ready to settle with him by paying him the difference.

#### **The Bear.—**

The Bear on the other hand (known as *mundiwalla* on our bazaar) is a speculator, or a dealer, who thinks that the market should record a fall in the security of his choice by the next Settling day and thus sells on account a quantity at the current price. If his expectations are realised i.e., the market falls, he buys up at the lower rate and delivers

the same to the jobber to whom he sold at a higher rate—of course through his broker. Generally he manages to secure the difference of profit from the jobber. Thus for example, if a speculator thinking that the Hindustan Railway shares which are quoted to-day at Rs. 110, will fall and sells ten shares on account at that price, and thereafter if the market does fall e. g., to 95, he can close the bargain with the jobber securing a profit of Rs. 15 per share less brokerage.

We have thus seen how the Bear and the Bull speculators deal. The majority of Bull transactions in any security has the effect of throwing up the market by creating a demand, whereas a larger number of Bear transactions will result in securing a depressing effect on the market. If however, the expectations of the Bull or the Bear are not realised, they have either to close the bargain by paying the loss or by taking or giving delivery of the securities dealt in, or they may request the broker to carry over the bargain to the next settlement.

### **Carrying Over.—**

In case of carrying over, the idea is to arrange to continue the transaction to one more settlement by postponing its final settlement. The parties to a contract on the Exchange are, of course, not bound to carry over unless they originally agreed to do so. In practice however, it is generally easy to arrive at such an arrangement, either with the original party to the bargain, or failing him, with some one else. If for example, the Bull who bought ten shares at Rs. 100, wants to carry the same over, he approaches the jobber through his broker with a request to carry the same over. Now supposing the current price on the settling day is 98-99 the middle price i.e.,  $98\frac{1}{2}$  will be the price

fixed for such carrying over. This is generally done by the clerk of the House; a regular list of such prices, known as the "making up prices," is published for each settlement. The original contract is thus cancelled at the price of  $98\frac{1}{2}$  and the difference i.e.,  $\frac{1}{2}$  £ per share is paid by the Bull to the jobber and a new contract for the purchase of ten shares at  $98\frac{1}{2}$  is entered into. If on the other hand the share has risen and the Bull still wants to carry over, he can do so at the 'making up price' receiving the difference instead of paying it i.e., if the making up price were 110 he would receive £ 10 per share. A similar course is followed in case of Bear transactions. In addition to the payment or receipt of the difference between the contract price and the making up price, a further charge is sometimes made known as the Contango in the case of Bull, or Backwardation in the case of Bear transaction. This has to be paid in consideration of the accommodation allowed for the continuation by the jobber. This charge varies with the class of security dealt in, the state of the money market and the quantity of the securities dealt in.

Instead of carrying over with the same jobber the broker often arranges to have these carried over with some firm of money lending brokers on the Exchange at a more advantageous rate. Thus what actually occurs is that the broker sells these securities to a firm of money lending brokers at the making up price of the day for cash and buys from them the same securities at the same price for the next account. The extra consideration of the money-lending firm for arranging thus to carry over and accommodate the speculator, takes the form of interest at a fixed rate on the value of these securities for the fortnight during which they agree to hold them. The speculator here pays the



difference of the market i. e., the difference between the contract and the making up price. He also pays for stamp as well as brokerage. Thus the lending firm virtually accommodates him with the capital necessary for the carrying over.

### Prices.

The prices as quoted on the Stock Exchange of London are divided under three headings: namely (1) those which are current during the official working hours of the Exchange namely before 3 P. M., (2) those which are quoted between 3 and 4 P. M. and known as the "Closing Prices." (Here it may be added for explanation that though the Stock Exchange is officially closed at 3 P. M. the doors of the building are not closed till 4 P. M. ) (3) and those which are quoted after 4 P. M. on the steps of the house and in streets, known as the "street prices." There is one more heading under which stock exchange prices are quoted or mentioned, namely the "tape prices". These are prices quoted on the tape-machine which is a clever mechanical contrivance which any subscriber can get fitted in his office. These machines are connected with the Central Exchange to record all fluctuations on the tape machines & they get information of the same through their agents on the Stock Exchange. Thus a subscriber who is interested in the fluctuations of the Stock Exchange can keep himself in close touch with these fluctuations throughout the day by getting one of these machines fitted up in his office. These machines when they have to give up a message make a clicking noise, like that of a typewriter, and emit a tape which is typed the fluctuation or any other information connected therewith. The prices quoted on these machines are known as the "Tape prices."

### **The Official List.**

The Stock Exchange of London issues an official list of prices, in which prices of those securities, which in the opinion of the London Stock Exchange Committee are of "sufficient magnitude and importance", are quoted. The list generally shows prices ruling from 10-45 A. M. up to 3-30 P. M. on week days and between 10-30 A. M. and 1 P. M. on Saturdays and also the closing prices. The first part of the list is made up of official quotations which are obtained through the process known as "marking" which we have already noted. The second gives the closing prices as current after 3-30 P. M. up to the time of the closing of the list. These are collected from the statements of the leading jobbers. According to the rules of the Stock Exchange no prices can be inserted in this first part of the official list unless the bargain shall have been made on the Exchange between members. In case any bargain has been made at a special price on account of the exceptionally large quantity for which it has been entered into, the same may be marked, but with distinguishing signs.

### **Options.**

Besides the ordinary dealings i.e., actual purchase and sale, there are other transactions known as option deals. Under these Option deals a speculator is in a position to limit his liability to the amount paid for securing the option, whereas, his chances of profit are left almost unlimited. Under this system, a speculator on paying down so much per cent, or so much per share by way of option premium, gets in return an option to buy or sell a certain quantity of stock or shares on the settlement day from a jobber at a price indicated at the time of the contract. The Option to buy is known as a "Call Option" and the Option to sell is called "Put Option." For example, if A were to think that according to his information the shares of the Bank of England, which are quoted on the date in question at £ 100,

will rise above £100 before the settlement-day, but he does not want to risk the chances of loss in case these shares were to record a heavy fall, and supposing that the jobber wants £1 per share i. e., £10 for 10 shares, as option money, which A pays. Now if on or before the settlement-day the market rises to £120, A would exercise his option to buy at £100 and immediately sell these shares at £120, thereby making a profit of £20 per share i. e., in all £200 minus the option money, namely £10. His profit would thus come to £190. If on the other hand the market were to fall, say to £80 per share, he would not exercise his option, but would abandon the transaction and thus lose his option money namely £10. Thus we see in this case that though the actual fall in price is £20 per share. A loses only £1 per share which was the actual option premium paid by him.

**“Put” and “Call Options”:**—

Besides the single options viz., “Put” or “Call” options, there are dealings known as “Double Options” or “Put and Call Options.” Under these, the speculator on paying double the usual premium, gets the option either to “put,” or to “call,” a certain quantity of securities at a certain price on the next settlement-day e. g., if A wants a “Put and Call Option” on 10 Bank of Bombay shares, the option premium being Rs. 10 per share, for each single option he would have to pay Rs. 20 per share viz., Rs. 10 for “Call Option” plus a further sum of Rs. 10 for “Put option.” Now supposing that on the settlement-day the securities did neither rise nor fall, he loses the whole of his option money viz., Rs. 20 per share. In order to enable him to make a profit, the securities must rise or fall to a limit which is over that of Rs. 20 on each share e. g., where the

agreed price was Rs. 1500, the securities should rise over Rs. 1520 or fall below Rs. 1480. The "Put and Call" transactions are thus entered into only in connection with securities which are subject to violent fluctuation in prices.

**"Call of More" and "Put of More."**

These are transactions in which are found combined either a Bull transaction with an option to double the quantity, or a Bear transaction with a similar option. We shall proceed to deal with these fully.

Under the call of more, if a speculator thinks that the price of a particular security would rise before the next settlement-day and wishes to buy a certain number of shares in the hope of making a profit, e. g., he wishes to go in for 20 shares, but cannot undertake the whole risk, he enters into a bull transaction for the purchase of 10 shares coupled with an option to buy further 10 shares. In this case if the security rises as per his expectation, he takes delivery of the first 10, making a profit on the difference and also exercises his option of purchasing 10 more, thereby making a further profit. But if on the other hand the market were to fall, he would have to bear the full loss on the first set of 10 shares for which a Bull contract exists, but with regard to the option to buy ten more, all he need do is to abandon the same, thereby losing his option money only.

If on the other hand he had information that the market was going to fall, he would deal in a "put of more" viz., a Bear contract to sell 10 shares coupled with an option to put or sell the same quantity viz., 10 shares.

**The Cover System.**

The Cover is a deposit of so much per share, or so much per cent, given to a broker by his client with instructions to

enter into either a Bull or a Bear transaction, with the implied condition that in case the market moves against the dealer and the loss swallows up the cover, the transaction is to be closed without the client being referred to. In other words the loss is never to exceed the cover money. If on the other hand the transaction proves profitable, the client receives the profits plus the "Cover" money. It would thus be seen that the "Cover" money is returnable with the profits, whereas the option money being a premium given to the jobber in consideration of his giving an option to buy or sell, is retained by him.

#### **Checking a Bargain:—**

After any of the bargains as dealt with above are entered into, the Principals viz., the Brokers and the Jobbers, get them entered in their respective books and on the next day their clerks meet in a special room on the Stock Exchange to check these bargains. The clerks of various Jobbers stand in this room at places selected by each, where the clerks of various brokers meet them and check the transactions entered into on the previous day by their masters.

### **Buying in and Selling out.**

When the shares or stocks bought or sold on the Stock Exchange are not delivered within the time fixed by the Exchange Committee, the party against whom the default is committed will have the right to publicly buy in, or sell out, the securities concerned through the officials of the Buying in and Selling out Department of the Stock Exchange of London. This of course is done by the purchaser or the seller through the broker. The Committee has the power to suspend buying in of securities "when

circumstances appear to them to make such suspension desirable in the general interest". The liability of intermediaries continues during such suspension unless otherwise determined by the Committee. The seller may however apply to the Committee for an extension of time on the ground that the securities are out of his control for the payment of calls for the collection of dividends or bonuses, in which case buying in shall not be done until the same comes under the control of the seller. In case of companies which prepare their own transfers, the securities should be bought in on the eleventh day from the date on which the transfers can be procured with all due haste. If the issuer of a ticket does not exercise the right of buying in within thirteen clear days from the ticket day, he shall release his seller from all liability, but the holder of the ticket shall remain responsible to him. In other words all the intermediaries will be released and only the original seller shall remain responsible to the buyer. In the same way if a seller of securities fails to receive the ticket by 2-30 p.m. on the ticket-day, in order to enable him to complete the sale, he can sell out such securities. The difference of loss arising through such operation, plus stock exchange charges, will fall on the defaulting party.

### The American Stock Exchange.

The Stock Exchange of America, popularly known as the "Wall Street," was founded at the beginning of the eighteenth century by a dozen brokers or stock dealers who originally met under a Sycamore tree in the Wall Street. Later on it assumed the title of the New York Stock Exchange, in about 1816, and is to-day the principal Stock Exchange of the United States of America. Since its

foundation, the Wall Street Stock Exchange has had varied experiences of speculation on a huge scale on the same lines as that experienced by the Stock Exchange of London. The New York Stock Exchange is situated in the Wall Street, which is a central place in the city where all great exchanges and banking institutions are congregated. It is an unincorporated association of one thousand and one hundred members who deal in stock and shares on their own account as well as act as brokers. The memorandum of the objects of the Stock Exchange of New York states that it is formed with a view "to furnish exchange rooms and other facilities for the convenient transaction of their business by its members as brokers; to maintain a high standard of commercial honour and integrity among its members; and to promote and inculcate just and equitable principles of trade in each business." The membership of the Stock Exchange of New York is very close and restrictive. Unlike the Stock Exchanges of other countries its members are made up of representatives from various parts of the United States of America. These members i. e., those who live outside the New York City maintain head as well as branch offices and are known as out-of-town members. These 1100 members represent about 583 firms comprising of 2006 partners. Besides the professional representatives, namely brokers or dealers in stocks and shares, the membership also includes large capitalists, who are members simply because they get the advantage of a lower rate of commission being charged to them by brokers whom they always employ. In other words, the capitalist members never work as brokers nor intend to do so. They form however a small proportion.

The members of the American Stock Exchange either work independently, or serve under their brother members. Those members who serve as brokers for brokers are called "Two Dollar Brokers" because they execute orders at the minimum rate of two dollars per 100 shares. There are some members who speculate on their own account and do not execute orders for others. These are known as "Room Traders." The rest of the members do their business as dealers as well as brokers. The New York Stock Exchange opens at 9-30 A. M. and the business commences at 10 A. M. and closes at 3 P. M. This time is very strictly observed and any member who does any business earlier than 10 A. M. and later than 3 P. M. in stocks or bonds is liable to a fine of 50 dollars. The floor of the Stock Exchange is open only to members and their employees, the last named being made to wear a prescribed uniform.

Unlike the London Stock Exchange, or other stock exchanges dealt with hereafter, the New York Stock Exchange does not know of monthly or fortnightly settlements, but all the transactions are settled daily. It is thus claimed that the transactions on the New York Stock Exchange are based on the solid foundation of supply and demand. This might give the casual inquirer a wrong impression to the effect that speculation is almost non-existent on this Exchange. On the contrary speculation there is indulged in on as large a scale as on any other market of the world. There the speculators deal on the margin system which very closely resembles the cover system of the London Stock Exchange. If for example, a speculator thinks that particular stocks or shares are likely to rise and wishes to buy 50 shares at 100 dollars each, his broker will buy the same for him on his lodging a deposit in the



form of a margin varying from 10 to 50 per cent according to the nature of the security and the position of the market. Let us suppose that the client in the case was made to pay 10 per cent margin i. e., 500 dollars as a deposit. The broker purchases 50 shares at 100 dollars each advancing the balance of 4500 dollars. This advance is made by the broker either from his own capital, or through a short loan arranged for by him with a local banker. The shares purchased are retained by the broker as a part of the deposit. In case the market rises according to the expectation of the customer, and the broker gets an order to sell say at 120 dollars, the amount realised on 50 shares will be 6000 dollars. Out of this the broker deducts his own 4500 dollars plus interest calculated at the current rate, plus commission and other expenses, and hands over the balance to the client. Here the client makes a profit of about 1000 dollars. If on the other hand the market were to fall to say 90 dollars, the broker immediately sells the securities unless the client furnishes him with further margin. In actual practice the broker demands the margin as soon as the prices of the securities begin to record a fall.

The Tape Machines as dealt with in connection with the London Stock Exchange are largely used in New York for recording and communicating of prices on the Exchange. Various magazines and morning papers also keep people closely in touch with the prices ruling on the market.

We have already noticed that the New York Stock Exchange is largely interested in American securities and seldom deals in Non-American investments.

## Paris Bourse.

Among the continental Bourses, that of Paris holds a prominent place while considered from the standpoint of dealings in international securities. France always has had a large amount of surplus capital for which she has been always looking for investment outside the country. We can thus state that as far as dealings in the international securities are concerned, Paris is the second best market to London. The Paris Bourse in general significance represents a market both for commodities and for securities where the actual articles dealt in are not exposed for sale. It dates back to very early times and the Bourse has been specially divided into two divisions namely, (1) Commercial Exchange (*Bourses de Commerce*) where merchandise is dealt in, and the (2) Stock exchange (*Bourses de valeurs*) where stocks, shares and securities are dealt in. From early times, some sort of a Government control has been exercised, particularly in connection with the Stock Exchange, and though during the Revolution this Government control was temporarily relaxed or abolished, it was soon resumed by degrees under the cloak or excuse of regulating dealings in securities and preventing malpractices. The Stock brokers who work on the *Bourses de valeurs*, are known as *Agents de change*, whereas those brokers who act as mercantile brokers are known as *Courtiers en Merchandise*. The stock brokers are however licensed by the State and are considered as so many officials under the Government. The number is limited to 70, which forms the profession into a class monopoly protected by the State. Each of them has to give a bond for 125,000 francs on which interest at the rate of 4 per cent is paid. When

a stock broker retires from business he is entitled to sell his office and transfer his bond to his successor. Thus stock brokers enjoy exclusively the right, of trading in Government and other securities and of negotiating in notes, bills of exchange and other commercial instruments. Even the Courts of Law appoint them as Trustees for sale or pledging of securities and their quotations and verifications of quotations are officially recognised..

Besides these stock brokers, officially created and recognised, there are outside brokers commonly known as bankers, also as "*Coulissiers*." They deal in a separate market known as the Bankers' Market. The stock brokers' market is also known as the "Parquet", whereas that of the outside brokers or Bankers is known as the "*Coulisse*." There is no restriction as to the number of outside brokers and in fact any one who makes up his mind to set up as one, can do so. A sort of loose arrangement for association and discipline is made by these outside brokers voluntarily for mutual protection and status. But, of course, the official stock brokers stand on a footing which is distinct and unique.

The Stock Exchange of Paris deals both for money and for account or forward delivery. In case of cash transactions a single security can be bought or sold, whereas in case of transactions on account or for future delivery, only transactions for at least 25 shares, or for a fixed minimum amount in francs of Government securities can be entered into. In connection with future deliveries it may be stated that transactions resembling our "options" both single and double, as well as our "cover system" are freely entered into here, and the settlements are also conducted

more or less on the lines indicated in connection with the London Stock Exchange.

The Paris Stock Exchange has taken the lead among the continental exchanges in the matter of foreign investments. It has a large amount of capital investments in Russia, Turkey, Spain, Portugal, Egypt, Greece, Germany, South America, Italy, China, etc.

### The Bombay Share Bazaar.

Formerly the Bombay Share Bazaar or Stock Exchange used to meet, according to Sir Dinsha E. Wacha, under two or three shady fig trees somewhere near the spot where the premises of the present Mercantile Bank of India are situated. This was apparently an open space or maidan during the years 1863 and 1864, where share brokers as well as others congregated and did business in stocks, shares and government securities. They had no permanent abode at the time. The *varanda* of the old Mercantile Bank of India, which was located in the building at present occupied by Messrs. Dunnett & Co., was also used by these brokers for the purposes of their meetings. Of course there were no regulations, nor an organised association existing, through whose medium discipline could be enforced. Any one who chose to do business in stocks and shares went to this market and acted as a broker. At this spot thousands used to meet in those days and enter into business of lacs of rupees. Bombay merchants made large fortunes at that time in the export of cotton to Lancashire, during the American Civil War, then going on, which made it impossible for Lancashire to procure an adequate supply of cotton from America.

Those were the times of exceptional speculative activity in Bombay and the huge sums which Bombay merchants made, were used for the purposes of speculation in all sorts of joint stock companies that were founded at that time. Practically no industrial organization in the real sense of the word then existed and in the absence of investments in industrial concerns various projects were conceived and several joint stock companies were incorporated in large numbers, in spite of which the demand for these shares far exceeded the supply and the shares began to record prices loaded with heavy premiums. These companies were mostly made up of banks, financing associations and reclamation schemes. There were also a limited number of projects, for working steamer companies, cotton plantations, cotton spinning, etc., on the market. Encouraged by this excited state of the market, all classes of adventurers came forward with fantastic projects which they crystallized in the form of joint stock companies, whose shares found a ready market among the excited speculators of that day. In fact history repeated itself here as in the case of South Sea Mania days on the London Stock Exchange. All classes of people from the poor to the rich, from the labourer to the professional man, huddled together in the share bazaar of the day in the scramble for securing shares of these joint stock companies, in the hope of soon selling them at a profit. The financial companies and banks formed during the excitement, as well as older banking institutions, lent monies freely on the deposit of these shares as securities, with the result that when the news as to the signing of the peace came from America, the clash

that followed was terrific. It affected Bombay all round and resulted in a general disaster and ruin of the public companies formed at that time, and also of some substantial old institutions which got involved in the whirlpool of this speculative mania. Bombay is estimated to have received fifty million pounds in sterling of war profits from Lancashire during the years 1864 and 1865, all of which were lost through this mad speculation instead of being utilized in the building up of industries of national importance. These events serve to give us an idea as to the excited times during which the foundation of the Bombay Share Bazaar was laid. It is undoubtedly curious that a parallel is to be found in the history of the stock exchanges of London and New York, both of which institutions came into existence at a period of great speculative excitement. The Share Bazaar was removed at a later date to the Apollo Street from whence it was again removed to its present premises. Its official designation is, the Indian Share and Stock Brokers, Association. Formerly, membership was open only to the natives of India, but now admission is thrown open to all nationalities, the only restriction observed being that the members of the Managing Committee ought at least to belong to the Presidency of Bombay and should be natives of India. The membership of the Bombay Share Bazaar, by which of course we mean the old original Share Bazaar as distinct from the new Share Bazaar, with which we shall deal later, is at present restricted to four hundred and fifty one members. The members have to deposit security valued at rupees ten thousand, which security may be withdrawn by them on declaring their intention of withdrawing from business on the Share Bazaar, though not exactly from the

membership itself, with the option to re-enter on the Exchange on a re-deposit of those securities. The yearly subscription is five rupees, plus rupee one for charitable purposes. The hours of business are from 12 Noon S. T. to 3 P.M. S.T. on week days and from 12 Noon S. T. to 2 P.M. S. T. on Saturdays. Here a member cannot enter into partnership with a non-member and the settlements are monthly settlements. Of course no division of the type to be found on the London Stock Exchange between a broker and a jobber exists here, every broker acting as a jobber whenever an opportunity presents itself. In case of the death of a member, his membership card is, at the option of the Committee, transferable to his son and failing the son the card is, under the control of the Committee sold by auction to a person of the Committee's approval. The last sale of a membership card realised the record price of Rs. 17,500. The card is not saleable during the lifetime of the member, but in case he proves a defaulter, the same is sold by auction by the Committee for the benefit of his creditors. The building is open only to the members and their clerks. Outsiders are not allowed to approach the place where business is actively put through i. e., the market where actual buying and selling takes place. Members are prevented from dealing with non-members except as brokers. The Share Bazaar is closed on Bank Holidays, but if the Bank is closed on a day other than that on which the actual holiday falls, it observes the actual day indicated by the Indian Calendar. Members are not allowed to do any *Soudas* on the days on which the Exchange is declared to be closed. In case a *Souda* is entered into in violation of this rule, it is not acknowledged to be under

the jurisdiction of the Committee and the Committee will refuse to consider any complaint in connection therewith. The members must pass written memoranda for *Soudas* entered into as the Committee refuses to acknowledge oral *Soudas*.

In the case of defaulters the rules of the Old Share Bazaar authorize the Directors to appoint a special committee known as the Defaulters' Committee. This Committee is empowered to close all *Soudas*, as soon as a member is proved to be insolvent and all members who have claims against the defaulting member are instructed to send up their bills to the clerk of the Bazaar. In case the defaulting member does not pay up his debts in full, within six months from the date of the default, the committee sells his card as stated above. Out of the sale proceeds of the card, the debts of the defaulting member are paid and the balance is carried to a fund kept for the purpose.

### **The New Share Bazaar or the Bombay Stock Exchange.**

Besides the old Share Bazaar, Bombay possesses a second share bazaar, or stock exchange which was incorporated in December 1917 as a Joint Stock company. The signatories to the memorandum of Association of this Joint Stock company are eminent businessmen of the city and the objects as laid down in the Memorandum of Association of the Bombay Stock Exchange include the following points:—

“To provide regulate and maintain a suitable building room or rooms for a stock exchange in the city of Bombay; to adjust controversies between persons authorised by the directors of the company to act as brokers of the Stock



Exchange; to establish just and equitable principles in the trade or business of buying selling and dealing in shares stock, debentures, debenture stock or any other securities ( hereinafter called the "trade " ); to maintain uniformity in the rules regulations and usages of the trade; to acquire preserve and disseminate useful information connected with the trade throughout all markets; to decrease the local risk attendant upon the business and generally to promote the trade of the City of Bombay, increase its amount and augment facilities with which it may be conducted." "To communicate with the Chamber of Commerce and other mercantile and public bodies throughout the world and concert and promote measures for the protection of the trade and persons engaged therein." "To transact or carry on all kinds of agency business and in particular in relation to the investment of money, the sale of property and the collection and receipt of money."

The Capital of the company is rupees twenty five lacs divided into twelve hundred and fifty shares of two thousand rupees each. The Bombay Stock Exchange proposes to work on lines similar to the sister Share Bazaar in the city. Originally the entrance fee of this Exchange was fixed at rupees one thousand and five hundred. Later on a security of five thousand rupees by way of deposit was called upon from the members. The present entrance fee is rupees two thousand and five hundred, plus a deposit by way of security of rupees five hundred, which is likely to be soon raised to seven hundred. The arrangement with regard to the security is that the amount has to be either deposited with some Bank selected by the member himself, or by the Stock Exchange authorities, the interest

on which is handed over to the member concerned; or failing cash, preference shares of some approved joint stock company of the same value may be deposited with the committee. The present yearly subscription is fixed at rupees twelve. The settlements here are monthly and at present they occur simultaneously i. e., on the same date with those fixed by the old Share Bazaar Committee, but a movement happens to be set on foot under which it is proposed to fix independent settlement days for this new bazaar. All transactions such as "Options" or "*Teji and Mandi*" transactions for account and for money, as entered into in the Old Share Bazaar, are familiar to the New Share Bazaar also. Of course the New Stock Exchange is at present in its infancy; but its future is promising and full of possibilities if it works on organised lines, keeping in front of it the high ideals which have helped the English, and the American Exchanges as well as the Old Share Bazaar of Bombay, to rear up a structure which each of these cases rests on the solid foundation of public confidence, whose members command exceptional prestige among financiers and business magnets and whose name is known and respected far beyond the limits of its territorial designation:



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